IDEAS ON LIBERTY

FEE's Monthly Magazine

- Free Martha!
- Merchant Ape: The Biology of Trade
- Fast Food and Personal Responsibility
- Taking Drug Laws Seriously

JANUARY 2003

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FEE Presidential Search

The Foundation for Economic Education seeks a new president to serve as chief executive officer to oversee all aspects of the organization's operations, including administration, development, personnel, publications, and seminars. Applicants should possess a strong philosophical commitment to the principles of individual liberty, private property, limited government, and free-market economics. Leadership strength and experience in fundraising, financial management, personnel supervision, and strategic planning are necessary. Strong communication skills—both verbal and written—are of great value in this position; FEE's chief executive is expected to be an effective spokesperson for the principles upon which the institution was founded.

Other skills of value are knowledge of, and good relations with, the large and growing number of like-minded organizations in the U.S. and abroad and the ability to relate well with people of all views and backgrounds. Last, but certainly not least, it is a high priority of the trustees of FEE that its President possess an entrepreneurial talent for building on past success and magnifying the visibility and impact of FEE's considerable record.

FEE is not an organization that seeks political favor or "pragmatic" solutions to today's problems. It is ardently devoted to the moral principles that form the bedrock foundation of a free society. We seek a president who will proudly and effectively advance this venerable tradition.

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APPLICATION INFORMATION

Interested candidates should respond to David C. Humphreys, FEE Presidential Search Committee Chairman:

By e-mail to: FEE@tamko.com
or
By regular mail to: FEE Presidential Search
c/o David C. Humphreys
P. O. Box 1404
220 West Fourth Street
Joplin, MO 64802

Each candidate should submit an application package no later than January 31, 2003, including the following items:

1. A cover letter indicating his or her interest;
2. An essay explaining why the candidate wants to be the FEE President;
3. A curriculum vitae;
4. Sample publications;
5. Names, addresses (both regular and e-mail), and telephone numbers of references;
6. If available, an audio or video recording of a speech given by the candidate; and
7. Salary and benefit requirements.

Deadline for all applications is January 31, 2003. It is anticipated that the search process will encompass a review of all applications, a selection of finalists to participate in a subsequent round of personal interviews, followed by a recommendation to the full FEE Board by May 1, 2003. It is anticipated that the duties of FEE President would be assumed shortly thereafter.

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IDEAS ON LIBERTY

January 2003 Vol. 53, No. 1

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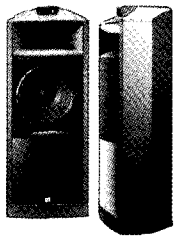

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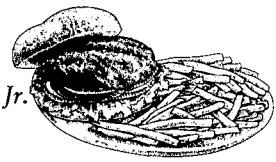

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Editor Emeritus
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Cover: Martha Stewart, speaking to the American Magazine Conference in 2001. AP/WIDE WORLD PHOTOS, Tina Fineberg. All rights reserved.

PERSPECTIVE

Free Martha!

Martha Stewart is certainly an attractive target for an ambitious Securities and Exchange Commission (SEC) enforcer. She's the "domestic diva" people love to hate. But under any rational notion of the rule of law, she should not be in the government's crosshairs.

At this writing, the SEC had informed Ms. Stewart that it intended to file civil securities-fraud charges against her. According to the *Wall Street Journal*'s sources, the charges are "based on novel theories of both insider trading and securities fraud for statements Ms. Stewart made proclaiming her innocence." Criminal charges were also being contemplated.

What is Ms. Stewart supposed to have done? She sold almost 4,000 shares of ImClone Systems stock right before it was announced that the Food and Drug Administration (FDA) had turned thumbs down on the company's cancer drug, Erbitux. She is a close friend of former ImClone CEO Sam Waksal, who last October pleaded guilty to insider-trading charges.

But the SEC is *not* saying she knew the FDA was about to release bad news for the company. Rather, its theory is only that Ms. Stewart sold her shares after her broker, who knew that members of Waksal's family were selling, advised her that ImClone's price was probably going to fall.

Insider-trading law is inconsistent with the principles of a free society. But even if that statement is wrong, there are no grounds for charges against Ms. Stewart. In typical unconstitutional fashion, Congress, rather than defining "insider trading," left it to the SEC to write the definition. To be guilty of insider trading, one must be "in breach of a duty of trust or confidence that is owed directly, indirectly, or derivatively, to the issuer of that security or the shareholders of that issuer, or to any other person who is the source of the material nonpublic information." By what stretch of the imagination does Ms. Stewart satisfy that criterion? She was an ImClone stockholder—period. She

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owed no duty to anyone connected with the company.

Moreover, there were no victims of her action. The anonymous buyers of her shares were already in the market looking for ImClone stock. If she hadn't sold hers, the buyers would have found others. She certainly did not cause the stock price to fall. The FDA did that.

The charge of untruthfulness stems from her disputed statement that she had a standing order to sell the stock if the price went below $60. Even if she lied, why is that a crime? When the government, wielding unjust statutes, invades your privacy by asking why you sold something you own, do you owe it the truth?

* * *

Before a seller can get his prices down, he first has to get his costs down. Therein lies the role for innovation, explains Ralph Hood.

Did nature select us to be capitalist animals? Dori LeCroy looks at the marketplace through evolutionist lenses to understand how we became what we are.

Alongside the other great *short* works on the freedom philosophy, Donald Kochan would add James Madison's essay "Property."

Eminent domain doesn't just violate the property rights of peaceful individuals, it violates the principles of sound economics. William Anderson spells it out.

Why would Soviet farmers feed freshly baked bread to their hogs? That's what Dale Haywood wanted to know.

A determined entrepreneur dedicated to excellence: that describes James B. Lansing, maker of fine audio equipment. Anthony Young chronicles the career of a capitalist.

Jeremy Rifkin insists we are running out of oil and we had better switch to hydrogen-based energy quick. Wrong on both counts, writes Michael Lynch.

A man is suing fast-food restaurant chains, charging he got fat and sick eating in their establishments. No, seriously. Ninos Malek has the story.

The specter of "overproduction" has haunted the United States throughout its history. But as Thomas Woods demonstrates, this is another case where "It ain't so much the things we don't know that get us into trouble. It's the things we know that just ain't so" (Artemus Ward).

F.A. Hayek's 1949 essay "The Intellectuals and Socialism" is unmatched in explaining why dealers in ideas are so often attracted to state power over peaceful pursuits. Adam Young revisits this seminal work.

Nearly everyone suspects that the government's schools are less efficient than private schools. John Wenders puts some numbers to the issue and isn't surprised by the results.

Here's what our columnists have this month: Lawrence Reed tells the story of George Washington Plunkitt and Tammany Hall. Doug Bandow sympathizes with corporate tax avoiders. Thomas Szasz debunks the billionaires who want to medicalize drug laws. Robert Higgs shows that World War II didn't make Americans richer. Donald Boudreaux says technology is not enough. Walter Williams says beware the "food Nazis." And on hearing U.N. Secretary General Kofi Annan say that development in the Third World requires taxation of the rich, James Otteson responds, "It Just Ain't So!"

Books coming under examination deal with junk science, the media's economic myths, the peril to the West, intellectuals in politics, the decline of "liberalism," and the role of foundations.

—SHELDON RICHMAN

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IDEAS ON LIBERTY
JANUARY 2003

The World Is Dying, So Tax the Rich?

It Just Ain't So!

In a September 2, 2002, op-ed in the *Washington Post,* U.N. Secretary General Kofi Annan sets out what he believes should be the world's agenda for the next century. He says we face "the twin challenges of poverty and pollution," and that if we are to end the "wanton acts of destruction and the blithe self-delusion that keeps too many from seeing the perilous state of the Earth and its people," we must organize a worldwide effort. "Action," Annan gravely intones, "starts with government."

It is hard to imagine how a single article could go wrong in more places and in more ways.

Here are the claims with which Annan opens: "We have filled the atmosphere with emissions that now threaten havoc in our lifetime"; "We have felled forests, depleted fisheries and poisoned soil and water alike"; and while some countries have grown rich, "too many people—in fact, the majority of humankind—have been left behind in squalor and despair."

Let us take these claims in turn. First, is it true that we have brought our atmosphere to this perilous state? Well, no. Although systematic evidence does not go back for more than about a century, all measurements of average concentrations of dangerous particulate matter shows them decreasing for the last several decades, despite growing populations and economies. According to a 1992 World Bank study, "Air quality in OECD countries is vastly improved."[1] That same document cites an OECD study showing that since 1970 lead concentrations have dropped by almost 100 percent, suspended particulate matter by 60 percent, and sulfur dioxide by 38 percent.[2]

How about the second claim? Is it true that we have depleted or poisoned our resources? Again, no. It is of course true that some forests have been felled and that some fisheries are being depleted, but on neither count are we anywhere near disaster. Global forestation has dropped about 20 percent within historical times, but remained relatively constant during the latter half of the twentieth century, even increasing marginally.[3] Forestation in North America has actually *increased* since the day Columbus arrived.[4] Amazonian rainforest, the loss of which is much lamented, still retains about 87 percent of what it was when man first arrived there; the rate of its loss is declining as well, currently standing at only about one-half of 1 percent per year.[5] (Incidentally, the claim that the rainforests provide us with all our oxygen is quite false: they use up about as much oxygen as they produce.[6])

The world's total fish catch has increased steadily in the last 50 years, but the 90 million tons or so of fish mass now annually taken out of the oceans is estimated to be about 10 million tons *less* than the total sustainable amount. Thus the oceans are in good shape.[7] Moreover, like our atmospheric quality, both soil and water quality are, by virtually any measurement, getting better worldwide.[8] That is not to say that there are not problems, or that things could not be improved—only that strong and credible evidence suggests that Julian Simon was right when he said that things are getting better and better.

But what about the places in the world where there are local problems with water, forests, fisheries, and so on? This brings us to the other major error in Annan's article. He notices that most of these problems are in developing, not developed countries, but he fails to realize what is the most important difference between them: property rights,

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markets, and relatively less government regulation. If the evidence suggests anything, it is that the remedies for poverty Annan proposes—government regulation of industry, markets, and the environment—are precisely the things that have slowed and even stunted progress in developing countries. These cures are worse than the disease. Economic freedom correlates positively with political stability, access to health care, access to clean water, food production, and investment in research and development[9]—indeed, even cleaner environments.[10]

The recent case of Ireland is illustrative. It has been one of the economic backwaters of Europe for generations. For centuries more people left Ireland than came to it. Suddenly, however, things have turned around: the immigration patterns have reversed, investment dollars are rolling in, and the economy has been growing at a robust 9 percent—far outstripping the anemic growth of other countries in Europe.[11] This has raised the ire of the European Union, which has reprimanded Ireland for the "reckless" policies that are siphoning off business, investment money, and talented people from the rest of Europe.

What has caused this sudden and stark about-face? Has it been the economic intervention, the managed markets, the globally organized world governments that the U.N. Secretary General recommends? No. Ireland lowered its taxes.

It cut the capital-gains tax from 40 to 20 percent and its top marginal personal income-tax rate from 48 to 42 percent, and it reduced its corporate tax rate to 12.5 percent, one of the lowest rates in the developed world.[12] In so doing, it signaled to investors and entrepreneurs around the world that it is a place of opportunity. Where there is opportunity, entrepreneurs will come—and wealth will follow them.

Kofi Annan says he is concerned about the poor nations, which he believes can only be rescued by taxing the wealthy. But the mounting evidence indicates that what the poor need is secure property rights and markets—and then they will take care of themselves. As hard as it is for a lifetime politician like Annan to contemplate, he must let them go.

—James R. Otteson
Jotteson@tenhoor.as.ua.edu
Department of Philosophy
University of Alabama

1. See Bjørn Lomborg, *The Skeptical Environmentalist* (Cambridge: Cambridge University Press, 2002), p. 175.
2. World Bank, *World Bank Development Report 1992: Development and the Environment* (Oxford: Oxford University Press, 1992), p. 40.
3. The increase has been from 30.04 percent global forest cover in 1950 to 30.89 percent in 1994. See Food and Agriculture Organization of the United Nations, *The Global Forest Resources Assessment 2000: Summary Report,* available at ftp://ftp.fao.org/unfao/bodies/cofo/cofo15/x9835e.pdf.
4. Stephen Moore and Julian Simon, *It's Getting Better All the Time: 100 Greatest Trends of the Last 100 Years* (Washington, D.C.: Cato Institute, 2000), p. 204.
5. See Lomborg, pp. 114–17.
6. See Wallace S. Broecker, "Man's Oxygen Reserves," *Science* 168 (3, 939 [1970]), pp. 1,582–88.
7. See John P. Wise, "Trends in Food from the Sea," *The State of Humanity,* ed. Julian L. Simon (Oxford: Blackwell, 1995), pp. 411–15.
8. See *The State of Humanity,* ed. Julian L. Simon (Oxford: Blackwell, 1995), chaps. 40, 43, and 45, and Lomborg, chapter 19.
9. See James Gwartney and Robert Lawson, *Economic Freedom of the World: 2002 Annual Report,* at http://freetheworld.com/. chapter 1.
10. See Mikhail S. Bernstam, "Comparative Trends in Resource Use and Pollution in Market and Socialist Economies," *The State of Humanity,* pp. 503–22.
11. See Ben Powell, "The Celtic Tiger," Techcentralstation-Europe, September 10, 2002, at www.techcentralstation.be/2051/wrapper.jsp?PID=2051-100&CID=2051-091002A.
12. See Brian M. Carney, "The Secrets and Perils of Ireland's Success," *Wall Street Journal Online,* May 30, 2001.

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JANUARY 2003

Free-Market Miracle: From Sri Lanka to Wal-Mart

by Ralph Hood

Having spent much of my adulthood in the aviation industry, I belong to the Greater Northern Alabama Lying Pilots' Coffee Drinking and Tale Telling Society. We meet erratically and unreliably, solely for our own entertainment.

One member, Don Langford, flies freight all over the world in huge airplanes.

Recently, Don told a brief story that illustrates the very essence of the free market, Adam Smith's invisible hand, global trade, just-in-time distribution, and why Wal-Mart has thrived. It also makes my 1960s economics professors at Clemson University look like clairvoyant sages.

Seems Don flew into Sri Lanka one day in a Boeing 747 to pick up a full load of freight, consisting solely of boxes upon boxes of locally made luggage. As Don pointed out, a 747 full of luggage is a bunch of bags.

Once loaded, Don and crew flew the luggage to Luxembourg—about six hours, even at 747 speeds. That was the end of Don's duty day, so he hung around about three hours and caught a ride back to the states on another freight 747. Guess what the cargo was? That same luggage from Sri Lanka, now headed for Huntsville, Alabama.

It took about ten hours to fly from Luxembourg to Huntsville, and the flight—complete with Don, the new crew, and the luggage—arrived in mid-afternoon. By then, Don was one tired fellow, so he slept the sleep of the dead until the next morning.

Now, here's the wonder: Don arose the next morning, went to Wal-Mart and bought a piece of that very same luggage. The inspection tag from the factory was dated one day before Don picked it up in Sri Lanka. Wal-Mart trucks had met the airplane the previous afternoon, taken the luggage to the Wal-Mart distribution center in Cullman, Alabama, unloaded it, sorted it, reloaded it onto different trucks, and delivered some of it to the retail store in Huntsville, where they checked it in and put it on the shelf, all within less than 24 hours. Don bought the bag for $39.95!

Wouldn't Adam Smith have loved that story? Just think of all those people in all those places—each working for his own gain—guided by the invisible hand to get that luggage to buyers in Alabama. It is a modern example of Leonard Read's famed pencil story. Think of the people around the world who participated—the riveters who built the 747; others who pumped oil from the desert, transported it to a refinery, then delivered the resultant jet fuel to Sri Lanka, where it was stored, filtered, and pumped into the airplane by still other people. Think of the laborers in Sri Lanka and those who loaded and unloaded the luggage in three continents, just so it could be purchased in Alabama.

And to think—all of those people, work-

Ralph Hood (hoodspeak@cs.com) is a writer in Huntsville, Alabama.

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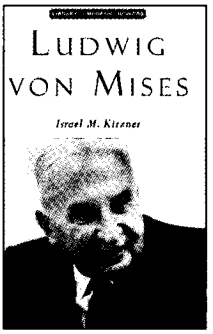
ing independently, made an income from that $39.95 piece of luggage. It boggles the mind.

Just in time? When people tell you that Wal-Mart got rich with low *prices*, remind them that Wal-Mart first had to master low *costs*, including just-in-time distribution. Global trade? It's here now.

My economics professors at Clemson? They taught me in the early 1960s that all public transportation starts by carrying rich people, then moves to carrying the masses, and finally to carrying freight. They said the same would happen with airplanes. I thought they were nuts. They were right.

And ain't the free market wonderful? □

Ludwig von Mises: The Man and His Economics



By Israel M. Kirzner

Israel Kirzner, today's most respected Austrian economist, shares his lifetime of knowledge and reflections about Mises. Kirzner was a student of Mises at New York University and draws on many years of collegial association.

This concise, insightful work does a thorough job of explaining Misesian economics. Kirzner covers the fine details as well as the grand architecture. There are chapters about such key subjects as money, capital, and the market process. A reader is sure to come away with a better understanding of the case that Mises was the twentieth century's best economist, an authentic genius, and a courageous man.

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JANUARY 2003

Merchant Ape: The Biology of Trade

by Dori LeCroy

Living creatures have adapted to their environments through millions of years of natural selection operating on both physical and behavioral characteristics. Cats climb trees and catch mice because in addition to installing the necessary physical equipment for these activities, natural selection also "designed" cats to want to do them.

Behavioral adaptation is crucial to survival, as is physical adaptation, and natural-selection pressures have influenced the behavior of all the animal species, including the human animal. An inclination to form alliances, greater generosity to relatives than to nonrelatives, mistrust of strangers, and delight in gossip are all examples of human behaviors resulting from millions of years of evolution. They are present, as the norm, in all cultures.

Evolved behaviors are natural tendencies to notice some things more than others, to have feelings about certain things, and to act in certain ways. Behaviors evolve because, more often than not, they foster survival and reproduction in the face of relatively constant environmental challenges. During our evolutionary past, avoiding predators was a constant challenge. This likely led to a human tendency to be nervous in the dark and to lie low at night. The saber-tooth got those who weren't nervous, and only we nervous ones are left. Nervousness in the dark is an evolved characteristic. So is the human sweet tooth. Those who ate more of the sugary fruits during the ripe period stored more energy, and over the long run had a reproductive edge over those without a sweet tooth. So here we are, the descendants of sugar-craving, fruit-gorging ancestors paying outrageous prices for Godiva chocolate and dieting the rest of the time. But the most interesting human adaptations are the social ones.

We are group-living animals, and we evolved as such. The human mind evolved in the context of a subsistence hunter-gatherer existence in groups numbering upwards of 100 or more individuals. During our millions of years of evolution all the necessities of life emerged from group membership: protective alliances, cooperative hunting, sharing food, all kinds of exchanges of goods and services. And this never was a "one for all" arrangement, but rather one of "reciprocal altruism," as evolutionary psychologists call it. Goods and services are given to another in the expectation of reciprocation, but not necessarily simultaneously, in kind, or by the same person. Each individual was part of a reciprocation network where a favor in the form of a food donation might be returned with a future gift of food or some other valued item like aid in child-care, support in a dispute, or another endeavor. Also the reciprocator might be a relative, friend, or alliance partner of the

Dori LeCroy (dorilecroy@aol.com) is an independent scholar in New York state.

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Archeologists are constantly discovering new evidence of trade between ancient peoples deeper and deeper in the past and over wider and wider areas. Materials were gathered by one set of exchanges and traded in another set, sometimes at great distances, all prior to the advent of writing or currency. The power of the human mind to keep accounts is extraordinary, and it has been at work for a long time.

original recipient of the food donation. The expectation is that what goes around comes around in one form or another and by one route or another.

For the marginal existence of our ancestors, networking was essential for survival and reproductive success, and those who did it best are our ancestors. Or to put it the other way, we are the descendants of ancestors who were the most skilled in the reciprocal-altruism arena. This means that natural selection favored psychological traits that supported success in this arena—traits like noticing and remembering who gives what to whom, how much, and under what circumstances. When a society is organized around dozens of individuals linked by mutually beneficial exchanges, a sensitive and efficient accounting mind is highly advantageous.

Due to its gradual accumulation in our ancestors over evolutionary eons, we carry the genetic material that supports these accounting capabilities. Our brains evolved under pressures to make efficient neural circuits that serve specific kinds of keeping-track-of-things. Once set in this direction in the context of small-group living, the human bookkeeping brain had no trouble extending its calculating abilities to a broader scope. The migrations of peoples led to intergroup contacts, and although warlike conflicts were common, so were commercial contacts.

Archeologists are constantly discovering new evidence of trade between ancient peoples deeper and deeper in the past and over wider and wider areas. Materials were gathered by one set of exchanges and traded in another set, sometimes at great distances, all prior to the advent of writing or currency. The power of the human mind to keep accounts is extraordinary, and it has been at work for a long time. Our great ape cousins, the chimpanzee, the gorilla, and the bonobo (also called pigmy chimpanzee) are capable of rudimentary versions of this kind of bookkeeping and are also socially organized around reciprocal altruism, but we far outdistance them. We are most truly the merchant ape.

Role of Emotions

All this sounds terribly calculating and cold-blooded, but actually emotions are very much involved. Behavior is motivated by emotion, and natural selection has seen to it that our emotions support our mercantile relations. Gratitude encourages reciprocation, guilt discourages nonreciprocation, and anger discourages nonreciprocation by others. Anxiety is evoked by suspicion of nonreciprocation. Contentment comes through inclusion in a reciprocation network, and happiness through personal achievements (skills, reliability, and other virtues) that demonstrate worthiness and therefore value as a reciprocation partner. From an evolutionary point of view, any evolved characteristic must confer a fitness advantage. There is little doubt that human emotions along with human reason were supported by natural selection to the degree that they successfully regulated reciprocal exchanges in the hunter-gatherer context of ancestral life.

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Essential for successful participation in exchange networks are empathy, a sense of fairness and of right and wrong, and an inclination to form trusting bonds of mutual support.

But all this doesn't imply that we are evolved to follow a golden rule. Skillful participation in networks of reciprocation also included skills for cheating and deceit. Clearly nonreciprocators were unlikely to be carried as free riders by our struggling ancestors. However, stingy reciprocation that escapes detection is another story. Successful cheating gives a reproductive advantage, so selection pressures supported it. And, of course, those best at detecting deception also had a reproductive advantage over those easily duped. As a result, through a kind of arms race, we evolved mental talents specifically "designed" both to detect deception and to deceive. At some point in this arms race a new weapon came along that had a pervasive impact on human nature: self-deception.

What better way to deceive another than to be oneself deceived? No clues in facial expression, body stance, or tone of voice are available to alert the target. We can be so convincing. The division of the mind into unconscious and conscious realms may well have evolved because it supported self-deception in the service of deception of others. Again, to reiterate our theme, those best at self-deception were our ancestors. They were the best at gaining advantages over others in the exchange of goods and services. Escalation of this talent was inevitable as self-deception dealt with ever-refining deception detectors. We are a species of self-deceivers. Freud told us this, as does great literature and our own introspection. Now evolutionary psychology weighs in.

Self-deception is adaptive because it served mercantile cleverness. It allows for storage of information outside of awareness, and authentic-appearing behavior inconsistent with unconscious knowledge. I can make a deal with you that is biased to my advantage and negotiate with you in a belief that it is a fair deal, and by my honest appearance be more effective. You may also have an interest in deceiving yourself about it.

Hierarchic Groups

Human groups are hierarchic arrangements of dominants and subordinates. An individual may be dominant in one context and subordinate in another (at work and in a church group for example), but we are all subordinate somewhere. Let's say your boss has decided to promote a colleague rather than you. The reason he gives is that you will have time for special training that will be a greater ultimate advantage for you. In spite of evidence that he is really acting out of self-interest, you might benefit from deceiving yourself into believing his story. Self-deception in this case would support authentic-appearing good-humored deference, and you would avoid the costs that might be incurred if suspicion and resentment should reveal themselves. Perhaps, in his own self-deception, your boss also misleads himself and really believes his decision is in your interest. This allows him to behave convincingly toward you and also get the bonus of feeling beneficent.

However, all this isn't to say that our commercial psyche is strictly designed for manipulation and exploitation, deception, and self-deception. Equally essential for successful participation in exchange networks are empathy, a sense of fairness and of right and wrong, and an inclination to form trusting bonds of mutual support. Warm feelings develop between consistently reliable coalition partners. Feelings that support mistrust are useful when dealing with a new partner, but an emotional bias supporting trust of a tried and true partner will get you past

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misunderstandings that might destroy a vital alliance.

In other words, reciprocal altruism, the exchange of goods and services, flows on a rich and sensitive current of human emotional life that may itself have been selected for the mercantile advantages it provided. This means that along with cheating and deceit, what we might think of as the worst of the human character, our merchant nature also gave rise to the capacity for social responsibility and for commitment and loyalty between friends and partners in endeavor and trade. One might even speculate that this capacity laid the groundwork for long-term, affectionate working partnerships between men and women.

Perhaps such partnerships were the beginning of divisions of labor. Because of differences imposed by reproductive biology, as with all species, human males and females always did different things. But at some point these differences became coordinated into mutually beneficial systems. We don't know when or why domestic arrangements changed so many thousands of years ago. Perhaps it had to do with the ice ages when meat became more essential and the dependence of females on male provisioning increased, as would have the need for females to maintain the all-important fire while males hunted. But division of labor is also based on individual differences in talents and inclinations within the sexes as well as between them. In ancient times, for example, one guy might be better at finding promising rocks and another better at chipping the tools out of them. So the second guy makes two tools and repays the first for his trek to the mountain.

However it started, evidence for division of labor or specialization and, by inference, systems of barter date from 1.5 to 2 million years ago. Over subsequent millennia, trade increased in geographical ranges. If we fast forward until about 30,000 years ago we may see awkward barter systems eased by the use of money. The existence of representational ornaments and cave paintings suggest that the symbolic psychological processes necessary for the use of intrinsically valueless items for the representation of IOU's for goods or services were in place. There is no evidence of these economic or psychological developments for contemporaneous Neanderthals who were then becoming extinct.

We are certainly the symbolic species. But what selection pressures, besides social selection for the exchange arts, could have driven the evolution of human psyche to this level of sophistication? We have been called the bipedal ape, the tool-using ape, the language and symbol-using ape, and we are all of these, but, I suspect, we are most fundamentally the merchant ape. □

The next quarterly issue of *FEE Today* will be included with the March issue of *Ideas on Liberty.*

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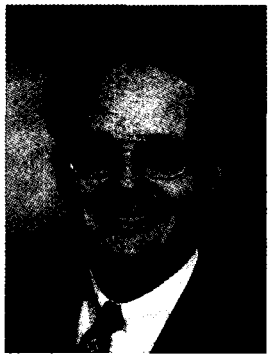
IDEAS ON LIBERTY
JANUARY 2003



The Forgotten Robber Barons

Conventional wisdom, which often is mostly convention and very little wisdom, confidently instructs us that rapacious capitalists dominated and victimized American society in the latter half of the nineteenth century. The white knight of government then rode to the rescue of hapless workers and consumers. The message: business bad, government good.

Honest, objective historians of the so-called "robber baron" era, such as Gabriel Kolko and Burton Folsom, know that the capitalist bogeyman perspective is simplistic and overwrought. Even a bad apple or two does not a rotten barrel make. But while recently reading a forgotten little gem of a book, I came to appreciate a fact that is vastly understated in the literature, even by defenders of the market: *government of the day was hardly a model of virtue*. The critics zero in on a few abuses to indict private enterprise in general. But if they were consistent, they'd draw up a similar, sweeping indictment of the public sector too.

The book to which I refer is *Plunkitt of Tammany Hall*. The first of many editions appeared in 1905 with a rather lengthy subtitle: "A Series of Very Plain Talks On Very Practical Politics, Delivered by Ex-Senator George Washington Plunkitt, The Tammany Philosopher, From His Rostrum—The New York County Court House Bootblack Stand," dutifully recorded and compiled by William L. Riordan of the *New York Evening Post*.

Plunkitt's motto, repeated several times in this slim volume, would undoubtedly be well-known to generations of American high-schoolers if a captain of industry had ever said it: "I seen my opportunities and I took 'em!" Plunkitt was no captain of industry. Indeed, he never did much of anything in the private sector except work briefly at a butcher shop after he quit school at the age of 11. He decided as a teenager to make politics his life's work, and he never looked back. His vehicle was Tammany Hall, a vast political machine that maintained a formidable hold on power through a patronage-fed bureaucracy in the nation's largest city, New York. Plunkitt was a district leader within the organization, and used its considerable connections to crawl his way up the political ladder—as did thousands of others over three-quarters of a century, including Richard Croker, John Kelly, and perhaps the best-known of all the Democratic Party bigwigs of Tammany Hall, the infamous William Marcy "Boss" Tweed.

If anything of the day deserved to be labeled a Frankenstein monster, it was Tammany—frightening in its reach and corrupt to the core. It was a patronage juggernaut, at one time filling 12,000 municipal positions with its hand-picked, often incompetent, but always politically correct loyalists. It milked the taxpayers like cows, took care of its own, and turned out the votes of its followers, living and dead, on election day. For decades, it thwarted reform efforts by buy-

Lawrence Reed (Reed@mackinac.org) is president of the Mackinac Center for Public Policy (www.mackinac.org), a free-market research and educational organization in Midland, Michigan.

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ing the reformers. It did more than just rig the system; it *was* the system.

Plunkitt himself became a millionaire at the game, and was proud of it. When he delivered his series of talks recorded by Riordan, he crowed about how he made his money through "honest graft"—by which he meant being in the right place at the right time with the right inside information. Knowing, for example, that the city planned to announce a site for a new park, Plunkitt would buy up the land in the area. Then he would later sell it to the city at inflated prices. Or he would bid on city property and arrange to get it at dirt-cheap prices because he'd offer jobs or money to the other bidders to drop out. Outright stealing from the city treasury, which Plunkitt regarded as "dishonest graft," wasn't necessary because political pull could earn you all the cash you could imagine.

Politics doesn't require a person to be book-smart, well-spoken, or even possess good business sense, according to Plunkitt. It just requires that you know how to pick and reward your friends. Here's his advice for getting started in the trade:

> Get a followin', if it's only one man, and then go to the district leader and say: "I want to join the organization. I've got one man who'll follow me through thick and thin." The leader won't laugh at your one-man followin'. He'll shake your hand warmly, offer to propose you for membership in his club, take you down to the corner for a drink and ask you to call again. But go to him and say: "I took first prize at college in Aristotle; I can recite all Shakespeare forwards and backwards; there ain't nothin' in science that ain't as familiar to me as blockades on the elevated roads and I'm the real thing in the way of silver-tongued orators." What will he answer? He'll probably say: "I guess you are not to be blamed for your misfortunes, but we have no use for you here."

Padding the city payroll with your friends? Tammany made an art form of it. When civil-service reform later cut into the number of jobs the Democratic machine could fill, Plunkitt decried the result with a straight face: "Just think! Fifty-five Republicans and mugwumps holdin' $3,000 and $4,000 and $5,000 jobs in the tax department when 1,555 good Tammany men are ready and willin' to take their places! It's an outrage!"

To Plunkitt, taking from some and giving to others was a key ingredient in the recipe for re-election. He saw nothing at all wrong with it, morally or otherwise. Using the political machine to bestow benefits and buy votes came quite naturally to him. "It's philanthropy, but it's politics too—mighty good politics," he said. Referring to the assistance he passed out to victims of a fire in the city, he declared, "Who can tell how many votes one of these fires bring me? The poor are the most grateful people in the world, and, let me tell you, they have more friends in their neighborhoods than the rich have in theirs." Plunkitt and his associates had quite a nice little welfare state going—the usual kind, in which the politicians get well and everybody else pays the fare.

Tammany Hall was not the only big-city political machine in the country in those days, but it was undoubtedly the biggest. It bilked citizens of millions of dollars and used its political power to secure its place and put everybody else in theirs. Strange, isn't it?, that in almost all the literature critical of this era of American life, the sachems of Tammany Hall are never listed among the so-called "robber barons" of the day. □

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IDEAS ON LIBERTY
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James Madison and the Simple Truths of Classical Liberalism

by Donald J. Kochan

Perhaps it is because liberty is an intuitive concept and because the state is foreign to human nature that the precepts of (classical) liberalism can be described succinctly. Whatever the reason, one need only spend a matter of a few hours to read and understand the fundamental tenets of liberalism.

Leonard Read aptly illustrates the spontaneous order of the market, despite its complexity, and the impossibility of effective central planning in a matter of only a few pages in his wonderful essay "I, Pencil." Frédéric Bastiat's *The Law*, first published as a pamphlet in 1848, fully sets forth the case for liberty and limited government, and examines the means by which the law and the state unchecked can be transformed into instruments that plunder the liberty of man.

These are but two examples that immediately come to mind. The library of liberty is filled with works of brevity and power.

For one searching to read an exposition on liberty with only five minutes to spare, an obvious recommendation is an essay titled "Property," by James Madison, published in the March 29, 1792, issue of the *National Gazette*. Especially in the infancy of the United States, Madison was a powerful defender of liberty. In a length no greater than this article, Madison set forth the critical principles of freedom. This essay, which is reprinted in most collections of Madison's writings, is powerful and deserves to be cited often.

Madison explains that property extends from land to opinions, from money to faculties, from conscience to free time. Property, understood in its broad scope, is the foundation of all liberty, and "as a man is said to have a right to his property, he may equally be said to have a property in his rights." He writes that property "embraces every thing to which a man may attach a value and have a right; and *which he leaves to every one else the like advantage.*" Because liberty, held equally by each individual, is based in property, it includes the right to exclude others, individuals and the state, from trespassing on that liberty. Liberty, as much as a man's wallet, belongs to the man.

It is on this principle of exclusion that Madison sets his attack on what today can be characterized as welfare "rights." He writes that a government is unjust when it effectuates "arbitrary seizures of one class of citizens for the service of the rest." He states that a man was meant to "earn his bread by

Donald Kochan (dkochan@gmu.edu) is a visiting assistant professor of law at George Mason University School of Law.

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the sweat of his brow" and not "spared from the supply of his necessities" through taxation of others for his private benefit. "Keenness and competitions of want" must remain the "spur[s] to labor" if property is to be secure. With these words, Madison attacks the redistributive programs so frequently infringing property rights today. The fruits of man's labor, growing out of his faculties, belong to him as his property; and this property is a personal claim, to the exclusion of all others.

For the same reasons, Madison attacks the means by which redistribution is accomplished—taxation. For Madison, taxation must be equal and small; progressive taxation is unjust. He defends these propositions when he writes, "A just security to property is not afforded by that government under which unequal taxes oppress one species of property and reward another species; where arbitrary taxes invade the domestic sanctuaries of the rich, and excessive taxes grind the faces of the poor."

Not only does Madison denounce the expropriation of the fruits of man's labor, he also proclaims that government-instituted obstacles to obtaining such fruits are themselves violations of liberty. In Madison's words, "That is not a just government . . . where arbitrary restrictions, exemptions, and monopolies deny to part of its citizens that free use of their faculties, and free choice of their occupations, which not only constitute their property in the general sense of the word; but are the means of acquiring property so strictly called." From this, it seems more than reasonable to presume Madison would take issue with most contemporary licensing schemes and permitting requirements.

The government ought not to create barriers to market entry, or, as Madison put it in an April 9, 1789, speech to the First Congress in which he praised the spontaneous order of the market and the specialization it engenders, "commercial shackles are generally unjust."

Protection of Liberty Paramount

In all, Madison endorsed a limited government in which liberty's protection was paramount. In his short essay on property, Madison proclaims that "Government is instituted to protect property of every sort. . . . This being the end of government, that alone is a *just* government, which *impartially* secures to every man, whatever is his own." Despite how far the United States has strayed from these principles today, this concise summary of governmental obligation should offer a sound guide to our policies.

Madison's words on liberty are particularly worthy of attention because of his influence on the writing of the U.S. Constitution. Both as a drafter of that document and an author of its most influential interpretive tool, *The Federalist*, Madison's essay on property should be considered a liberal work of supreme importance.

Madison himself underscored the importance of understanding the scope of liberty when he stated in another essay in the *National Gazette* (January 19, 1792) that, "Every word of [the Constitution] decides a question between power and liberty." Too often, these constitutional questions have been answered in favor of power. Resurrecting the government of limited and enumerated powers designed at the Founding is required if we are to fully protect the liberty Madison describes.

(James Madison's "Property" is available at www.fee.org and in reprint form. Contact FEE for further information.) □

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The Economic Case Against Eminent Domain

by William L. Anderson

In 1979 one of the most divisive things ever to affect the Tennessee Valley, my former home, came to a head. The Tennessee Valley Authority (TVA) had nearly completed a dam at the mouth of the Little Tennessee River—the Tellico Dam—but could not close the gates because the U.S. Supreme Court had agreed with environmentalists that an allegedly endangered fish called the snail darter should not have its habitat disturbed by the proposed reservoir.

Of course, this case was labeled an excess of environmentalism. Congress responded by passing a law that exempted the snail darter from the Endangered Species Act. President Jimmy Carter signed the bill. Soon the gates of the dam were shut, and Tellico Lake was born. It seemed like the triumph of common sense over extremism, which supposedly became even more apparent after biologists discovered snail darters living in other creeks in the Tennessee Valley.

Yet long before environmentalists brought the Endangered Species Act into the fray, the Tellico project had already created high levels of anger among many people who owned land near the Little Tennessee River. These landowners, mostly farmers working some of the best growing land in east Tennessee, were forced by the TVA to sell their property to the U.S. government, which invoked its powers of eminent domain.

I remember three families who held out the longest, all whom were finally removed from their homes by federal marshals. There were no gun battles and no physical resistance, simply the resigned attitudes of people who had been beaten down by government. To make matters even more bitter for landowners, most of the land taken for the project was not to be inundated by Tellico Lake, but rather went well beyond the proposed shoreline.

The TVA, as it turned out, seized the extra land in order to sell it to developers of a proposed "public-private" planned community to be called Timberlake. (The project never went through.) In fact, the only way the project could satisfy the cost-benefit test was that TVA projected a large profit in the sale of the land taken from private property owners.

(In the 23 years since the closure of the Tellico Dam, few of the project's touted benefits have actually come to fruition. That sad fact, however, is grist for another article.)

As with most debates over things like dams and property seizures, argument raged over the efficacy of the Tellico Project. Did it serve a "greater good," and could it be justified because of the benefits it was supposed to provide? Conversely, could one determine after the fact that the whole thing had been a mistake and that it ultimately was not in the "public interest" to have dammed the

William Anderson (banderson@mail.frostburg.edu) is an assistant professor of business management at Frostburg State University, Frostburg, Maryland.

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river and seized lakefront property? In other words, was and is there a way to *measure* whether or not government should undertake such activities?

The larger issue, which I want to discuss here, is the efficacy of giving governments at all levels the power of eminent domain, which allow legal property seizures in the service of a "public interest." The U.S. Constitution granted the power to the central government, although it was not to use it without "due process." State laws on eminent domain are similarly modeled. As is often the case, however, "due process" simply is nothing more than a blank check to the authorities to participate in land grabs with accompanying abuse of property owners.

The examples of how eminent domain has been abused are endless and would fill these pages in perpetuity. Moreover, I doubt that all the reforms in the world could end or even curtail the myriad wrongs that government inflicts on those who happen to be in the way of "progress." My purpose, then, is not to propose *reforms* of eminent domain. Instead, I wish to show why these government powers must be *abolished* not only in the name of liberty, but also in the name of good economics.

Eminent Domain and the "Common Good"

Whenever one openly questions eminent domain, the argument invariably turns to whether such property seizures can serve a larger "public purpose" by enabling public works and, increasingly, private facilities to be built that otherwise might have been blocked by recalcitrant property owners. The premise is that if the benefits accruing to the "public" are greater than the losses suffered by property owners, then a "common good" argument can be made in favor of such activity.

When property was taken to build a Jeep factory in Ohio, an editorial in the *Toledo Blade* on March 12, 2002, crudely—but forcefully—made a "common good" case:

> First it was Ralph Nader. Now it's the libertarians at the Institute for Justice in Washington raising a ruckus about the eminent domain land takings that made the new Jeep plant possible. Lost in the discussion is any concept of the common good. . . . Ralph Nader, in earlier visits to Toledo, waxed pious about how shabbily those whose property was seized were treated. This was in some cases true until they hired lawyers to negotiate for them. But they received fair prices and kept the city honest. . . . In a society we have roles as individuals and roles as social creatures. The libertarian stance is that personal rights always supersede public welfare. Sorry, we didn't buy that during the eminent domain proceedings and we don't buy it now. . . . [T]here are times when the good of the civic body requires individual sacrifice. That is why members of our military are dying in Afghanistan, and that is why some people sacrificed their homes and small businesses for the Jeep plant. It wasn't about moving assets from one party to another but investing in the community's future.

Undoubtedly many people in Toledo benefited from the expansion of the Jeep plant, but the argument presented by the *Blade*'s editorial writer is woefully shortsighted. First, it attempts to create an imaginary standard of the "common good," something that may have some rhetorical appeal, but cannot be measured. Second, it endorses a process that invariably abuses individuals who ultimately must bear the burden for the good fortune of others.

For all of the talk of "public interest," we seem to forget that society is always made up of individuals, who may choose to work with each other to enjoy gains through trade. The seizure of property to serve a "common purpose" generally means that some individuals gain—perhaps even a large number—and others are made worse off.

Economic analysis must always begin with the individual, but in so doing, it runs into a serious problem: *interpersonal utility comparisons* are impossible. In laymen's terms,

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The problem with the "common good" argument is that it is based on the assumptions that interpersonal utility can be compared and that a measurable "public interest" exists.

one cannot compare satisfaction and dissatisfaction among individuals because there is no way to measure those things. Assume that I trade my watch for a friend's rare book. Observers might be tempted to claim that I valued that book more than my friend valued it, and he valued my watch more than I did. But such claims are impossible to make. All we can know is that I valued my friend's book more than I valued my watch and he valued my watch more than he valued his book.

The problem with the "common good" argument is that it is based on the assumptions that interpersonal utility can be compared and that a measurable "public interest" exists. All we can know in the Toledo case is that the seizure of property to enable Jeep to expand its factory provided benefits to large numbers of individuals in the Toledo area. Perhaps one can even say that more people benefited from the new plant than were harmed through the loss of homes and businesses.

To say, however, that plant expansion via property seizures was justified because more people benefited than were harmed is nothing more than an appeal to brute force. It is not good economics. If a mob were to overwhelm my family, ransack our house, and steal our possessions, no one would say this was good because the majority of people in our house decided they wanted our goods more than we did. Yet there is no logical difference between the two examples.

Forced Sales

Like the small farmers who had their ancestral lands taken away from them for the creation of Tellico Lake, the property owners in Toledo "sold" their land under duress. Since the transactions were not voluntary, there is no way to declare (as the editorial writer did) that the owners received a fair price for their property. Furthermore, because lawyers are not likely to work pro bono in takings cases, individuals who challenged the state's price were able to do so only at a high cost to themselves.

Those who advocate eminent domain generally appeal not only to the common good, but also to efficiency. The argument is this: Things that are good for the community should also be done at the lowest possible cost within the bounds of the law, which generally requires "due process" and "just compensation." Furthermore, if eminent domain were not applied to worthy projects such as roads and plant expansions, holdouts demanding exorbitant compensation would make such things too expensive.

Although on the surface this sounds like a good argument, it falls apart on examination. First, let us assume that a firm, in order to complete a project, needs to purchase ten parcels of land from individual owners and does not appeal to the local government for eminent-domain assistance. Furthermore, assume that each owner is offered $100,000 for his land, and all agree to sell, except one who demands $500,000.

At first glance, one might accuse the holdout of "greed" or "selfishness," but that is irrelevant from an economic point of view. All we can say is that the holdout values his property more than any amount below $500,000. Because value is ultimately subjective, the holdout's demands are no less legitimate, economically speaking, than those of the landowners who accepted $100,000. Even though the others most likely would have preferred more—just as we accept pay raises—they were willing to part with their property for less.

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One needs to view the buyer's offer as a cost not only to the buyer, but to the landowner as well. Whatever amount he turns down is the cost of keeping his land. This is no less a cost in economic terms than whatever the company would have paid for the property.

What if the local government invokes its power of eminent domain and seizes the property for the company, with each property owner paid $100,000 in the forced sale?

It seems the "community" (which includes the company) has saved $400,000 by forcing the recalcitrant landowner to sell at $100,000 instead of letting him hold out for $500,000. However, the $400,000 represents a real loss to an individual (also a member of the community), who is forced to bear a cost he preferred not to bear. This is what the *Blade* had in mind when it declared that "there are times when the good of the civic body requires individual sacrifice." Actually, what it means is not that an individual has "sacrificed" (more appropriately, *has been* sacrificed), but that the costs that would have been borne by the company are now forced on a person against his will.

State Abuse

Besides the economic criticism of eminent domain, we also see that the granting of such awesome powers also guarantees that the state will abuse them. Once upon a time, eminent domain meant the construction of dams and roads; today it means whole neighborhoods, churches, and businesses condemned so other businesses can use the space. It is ominous that large corporations can appeal to government to take others' property instead of having to rely on voluntary exchange.

A recent occurrence in my town serves as a frightening and depressing example. I live in Cumberland, Maryland, which is located in the Allegheny Mountains in the western part of the state. While it is a relatively poor area, one charming aspect of the city is that it has a number of wonderful examples of nineteenth-century architecture. In my neighborhood, for example, many of the houses (including my own) were constructed over a century ago, when large-scale ownership of automobiles was not anticipated and houses were constructed near the street and close to one another.

One would think the local government would want us to take pride in the architectural integrity of our city. However, officials attempted (in secret, of course) to force a law through the city council that would have retroactively applied new housing regulations, including one governing the proximity of a dwelling to the street. In other words, the city officials were trying to make most of Cumberland's lovely houses illegal.

Why would they do this? The answer is simple and sinister. They wanted to be able to condemn large blocks of neighborhoods if the opportunity for a large-scale business or government project arose. It is always easier to invoke eminent domain on homes that don't meet current codes.

Fortunately for us, a couple of sharp-eyed female citizens found out about the government's plans and blew the whistle. The city officials ran for cover and had to postpone—for the time being—their attempt to turn our neighborhoods into one vast violation of building regulations.

One can only call this an abuse of power. However, because eminent domain is on the books and is seen by some as a natural "right" of ambitious politicians and bureaucrats, individuals who happen to be in the way will continue to suffer.

Milton Friedman once compared attempts to "reform" government agencies to trying to teach cats how to bark. He might as well have been describing the power of eminent domain. □

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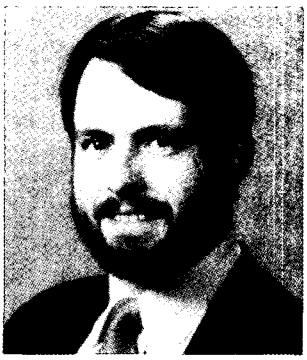

Patriotic Tax Avoiders

Little upsets politicians more than people attempting to escape their control. So it is with U.S. companies that have fled overseas, now attacked as being unpatriotic and worse by Washington pols.

Over the last decade, at least 25 major firms have reincorporated in Bermuda or the Cayman Islands. Eleven have emigrated since 2000.

The reason is simple: taxes. As Jonathan Weisman of the *Washington Post* put it: "The United States, with its 35 percent corporate income tax and its Byzantine rules for taxing worldwide profits, is not a particularly friendly tax environment, especially when compared with Bermuda, where there is no corporate income tax."

But the economic incentive isn't enough. Unlike European rules, U.S. law allows companies to shift to another country without shifting their headquarters.

Naturally, the legislators who enacted both the tax rates and the tax loophole are furious. Charles Grassley of the Senate Finance Committee says such inversions are "immoral and unethical." Representative Jim Maloney calls firms that migrate "unpatriotic and immoral in a time of war."

Even some nominal conservatives have joined in the hunt. Former Reagan administration defense aide Ken Adelman wants to go after companies that aren't paying their "proper share of taxes to the U.S. Treasury." Moving offshore to reduce Washington's take is "shady" and "just awful."

A half dozen laws have been drafted in response. The companies responded with their usual weapon of choice, lobbyists. Said Todd Malan, executive director of the Organization for International Investment: "They've hired everybody in town."

Corporate inversion is one of those issues that invite demagoguery. Yet moving to lower one's taxes is common in America. States without an income tax attract retirees; many people compare the level of taxation before deciding between adjoining states. Many people even avoid cities, such as New York, which hit up their residents coming and going.

Moving across national borders is more difficult, but makes equal sense. It's not just small Caribbean nations that have lower corporate tax rates. So do Hong Kong and Taiwan, Norway and Sweden, Chile and Ecuador, Hungary, and Switzerland.

Playing by the tax rules enacted by Congress in order to lower one's taxes hardly seems immoral, unethical, and unpatriotic. Rather than complaining, legislators could, perish the thought, lower tax rates and rationalize the regulations to make America more competitive.

Indeed, when it comes to blame, Congress is the obvious culprit. First, consider the mess Congress has made of international taxation. Senator Orrin Hatch admits that the foreign tax credit doesn't fully offset foreign levies, resulting in double taxation. Thus, he says, "the effective tax rate of

Doug Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books.

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American-based firms is often much higher than that of their non-U.S. competitors."

The second problem is the overall tax burden. Despite the modest Bush tax cut, the government's take remains at historically high levels.

According to the Tax Foundation, Tax Freedom Day, when Americans stop paying for government, ran to April 27 in 2002. The good news is that this is down from May 1 in 2000, after the Clinton tax hikes. But it's still the record before 1998. It's almost a month longer than in 1945, at the end of World War II, because state and local governments then took so much less. Americans are working for government almost two weeks longer than they did in 1984, the low point over the last two decades.

Third, toss in the regulatory burden and you get Cost of Government Day. That, reports Americans for Tax Reform, came to July 1 last year, up six days over 2001. By this measure, people spend half their lives working for the state.

Thus, it seems a little churlish to demonize people as they attempt to lighten this burden a bit. That applies to corporate America too. For one thing, individuals, not businesses, pay the taxes.

High Taxes

In any case, U.S. tax rates are excessive. America's corporate rate, combining federal and state taxes, averages 40 percent, 8 percent higher than the average of other industrialized states. Indeed, last year U.S. levies went from fourth to second highest in the developed world. Compliance costs in America are also among the highest in the world.

This extra money is going for an orgy of spending. In fact, the increase in outlays in George W. Bush's first two years equals that in the first five years of Bill Clinton. Since February 2001 Congress increased discretionary spending by over $400 billion.

This isn't due to the War on Terrorism. Representative John Spratt admits it: "The cost of 9/11 is a small fraction of the total deterioration of the surplus." About two-thirds of increased spending is due to other factors. Reports Jeffrey Birnbaum of *Fortune*: "The rest is testament to a fact that predates Sept. 11: the era of big government has returned." Indeed, he adds, the fight against terrorism has been a "ruse to justify all sorts of spending."

Citizens Against Government Waste reported that last year the House and Senate included $662 million and $801 million, respectively, in pork in the 2003 military construction appropriations bill. No occasion is to be missed when it comes to lathering federal cash on constituents.

Rather than cut spending, in recent years the GOP majority elected in 1994 worked to shift the money to Republican districts. By 2000 the average Republican district was getting $612 million more in federal funds than the average Democratic district. "To the victor goes the spoils," observed then-House Majority Leader Richard Armey. The National Taxpayers Union has found that the average legislator has been casting votes to increase the so-called budget baseline by twice as much as two years ago. Observes Brian Riedl of the Heritage Foundation: "Republicans and Democrats basically make a deal with each other—'I'll vote for your increase if you'll vote for my increase.'"

People should feel immoral, unethical, and unpatriotic when they avoid this?

Congress should deal with corporate inversions, but not by punishing companies tired of seeing a large share of their revenues seized by politicians to reward favored interest groups and buy votes. It wouldn't be easy: restricting inversions would make U.S. firms more susceptible to a foreign takeover, which would automatically result in a lower tax rate.

Restrictions would also encourage established firms to move their headquarters overseas and startups to begin there. For example, a company that located in Ireland, with a corporate tax rate less than half that in America, would be protected by a tax treaty from punitive retaliation.

The real immorality is when politicians take people's money for their own purposes. The real lack of patriotism is when politicians put their interests before freedom. □

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IDEAS ON LIBERTY
JANUARY 2003

Feeding Bread to Pigs

by Dale Haywood

Years ago a Detroit newspaper reported that in the countryside of the former Soviet Union there were billboards that read, "Comrades, it is unpatriotic to feed bread to your pigs."

As a guy who grew up in rural Nebraska, I found my curiosity aroused. I know something about the eating habits of pigs. They'll eat almost anything. I've seen them eat cow manure. I read on.

When I learned that the bread referred to was freshly made, perfectly good loaves, I became even more curious. Surely this was a foolish practice. This was definitely bad economics. Why go to the trouble and expense of converting grain into flour and flour into bread? I'm sure the pigs would enthusiastically eat the grain directly. What was going on here?

The explanation for what was happening was really quite simple.

The Soviet government at that time had a policy of subsidizing bread bakers. Thus bakers didn't have to charge their customers the full cost of the bread. I surmise that the goal of the policy was to make it possible for even poor people to afford what historically has been an important component of that nation's diet. (Even before they took power, the Bolsheviks had promised bread to the people.) And no doubt the policymakers from the outset expected to have to tax some of the nation's citizens to pay for the subsidy to the bakers.

But the policymakers didn't anticipate some of the not-so-obvious, long-run consequences of their policy. They probably never learned what Henry Hazlitt's classic, *Economics in One Lesson*, teaches: "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."

The hog farmers throughout the country were probably continually monitoring their options. Since pigs aren't particular about what they eat, the farmers had lots of alternatives. Almost certainly those included traditional feeds such as corn and wheat. But they also included, once the policy of subsidizing bakers was adopted, an untraditional feed, freshly made bread.

My guess is that the hog farmers opted for the fresh bread when, because of the subsidy, it became the cheapest alternative. That's what producers in a profit-and-loss system do, even in the highly distorted Soviet system. They strive to keep their costs down. They buy the cheapest inputs that will serve their purposes. And, in isolation, what the hog farmers did was perfectly rational.

The bakers probably didn't ask their customers what they were going to do with the bread. They probably didn't care. But the more bread that was produced for hog con-

Dale Haywood (haywood@northwood.edu) is a professor of business at Northwood University, and an adjunct scholar with the Mackinac Center for Public Policy, both in Midland, Michigan.

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sumption, the more the policymakers had to subsidize the bakers. And the more they had to subsidize the bakers, the more they had to divert tax revenue to that purpose.

Perhaps whoever approved the wording on the billboards reasoned that the revenue wasted on subsidizing hog consumption could have been used a better way. He probably also thought that taxation to subsidize bread produced for human consumption was all right. That, after all, was what the government's policy intended.

But one of the *unintended* consequences of the policy was that hog farmers were probably not conscious of the full cost of the bread. The artificially low price was a false signal misleading them into choosing a more expensive feed over a less expensive feed. This was an economic mistake. The pleas on the billboards were designed to stop hog farmers from "wasting" revenue.

What a paradox. Someone in a communist country (whoever authorized the billboards) perhaps grasped, implicitly, the value of free-market prices, namely, they assign the true costs of choices to the appropriate people. □

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IDEAS ON LIBERTY
JANUARY 2003

The Lansing Sound

by Anthony Young

James B. Lansing is one of the most recognized names in the world of professional and consumer audio products today. However, the first company bearing that name nearly passed into oblivion, narrowly avoiding bankruptcy as a corporate casualty of America's protracted Great Depression. Lansing's ability to surround himself with skilled engineers, his vision, persistence, and unshakable belief in his products resulted in two companies that continue to carry on a proud tradition of technical innovation and audio excellence. Those companies are Altec Lansing and JBL.

Lansing's story of eventual corporate success is one of countless examples of American free enterprise during the twentieth century. What marked entrepreneurs then, as now, was the ability to see new technological trends and see the commercial possibilities of harnessing them. This is a cornerstone of American capitalism, which invariably results in job creation where there was none before and new products to meet the needs of other companies and the desires of consumers.

Born in Illinois in 1902, James Martini developed a fascination with the emerging field of radio and broadcasting as a youth. He attended school in Springfield, Illinois, and Detroit, Michigan. There is no record of his going to college; his father had been a coal miner, and higher education was not in the cards. In 1925 Martini moved to Salt Lake City.

It was during this period that Martini changed his name to James Bullough Lansing. For years, the choice of that name was a mystery, but a future business associate, John Edwards, recalled that the young James Martini had worked in Lansing, Michigan. Lansing had told Edwards this was where he had received the inspiration for his new last name. Lansing took the middle name Bullough from a family he had briefly lived with in Litchfield, Illinois. The Lansing Manufacturing Company started business in Salt Lake City, but Lansing moved to Los Angeles in 1927, where he could supply speakers to a number of radio manufacturers.

The company manufactured loudspeakers primarily for the booming radio and radio consoles market. To keep overhead low at first, the cones and voice coils were made at home during the evenings and all the speaker components assembled at the small manufacturing facility the next day. Business grew slowly for the next several years. A new development in motion pictures would alter the course of Lansing's small company. That new development was the advent of sound.

A number of companies were working on adding sound to the silent film, but Western Electric paved the way. By 1924 the company was ready to pitch its system to Holly-

Anthony Young (ahyoung50@yahoo.com) is a freelance writer based in Florida. *He would like to thank Don McRitchie of The Lansing Heritage website (www.audioheritage.org/) for his assistance in the research of this article.*

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wood. Warner Bros. was the first company to step up to the plate. A joint venture was formed, the Vitaphone Corporation, to work on the development of sound motion pictures. Within four months, the first motion picture with synchronized music and sound effects, *Don Juan,* made its premier at Wamer's Theater in New York City in 1926. However, it was Warner Bros.' *The Jazz Singer* of 1927, starring Al Jolson, that really put talking pictures on the map.

Western Electric formed a subsidiary to handle nontelephone-related business, Electrical Research Products, Inc. (ERPI). This new division developed and distributed studio recording equipment and theater sound systems, and by 1929 ERPI had equipped over 2,300 theaters. Western Electric became a powerhouse in the field of film sound, from sound recording during filming to playback in theaters across the country.

Douglas Shearer, head of Metro-Goldwyn-Mayer's sound department, did not like the Western Electric system, in part because audio quality needed perfecting. Shearer called in John Hilliard, with degrees in physics and electrical engineering, to tackle the problem. At United Artists, Hilliard had been in charge of recording, monitoring, and sound editing for several years before being lured to MGM to work for Shearer in 1933. Hilliard met with Western Electric engineers to recommend changes to improve the system, but discussions proved fruitless.

Systems Needed Improvement

Hilliard met a brilliant young engineer, John Blackburn, who held a doctorate in physics from the California Institute of Technology. At Hilliard's urging, Blackburn went to work for Lansing in 1934. After attending a show of the Society of Motion Picture Engineers, both men believed the sound systems they observed could stand serious improvement. Discussions took place between Lansing and Blackburn at Lansing's company, and Hilliard and Shearer at MGM. This collaborative effort and final design became known later as the Shearer Horn.

The prototype that emerged used four Lansing 15-inch cone woofers with a multi-cell horn designed by Robert Stephens of MGM, using a Lansing compression driver. Tests in actual theaters were so successful that 150 units were ordered, to be installed in MGM's Loew's Theater Circuit. RCA and Western Electric received contracts to build 75 units each. Although Lansing did not receive a contract to build the systems, his company did supply RCA with the speaker components for its system, and he was free to build and market units of his own. He chose to name it the Shearer Horn System—RCA and Western Electric did not—and this proved a brilliant marketing move. The Shearer Horn put Lansing's company on the map, and many movie moguls felt Lansing's system was superior.

In 1937, Lansing introduced the Iconic. The knowledge gleaned from the Shearer Horn System inspired Lansing and Blackburn to design a compact speaker enclosure using one 15-inch woofer and a smaller multi-cell horn. The Iconic earned such a reputation in the field of recording and playback that music greats including Les Paul selected it for their personal studios. Lansing established the standard for studio monitors, and it is a reputation the company holds to this day.

In 1937 Western Electric was forced by the U.S. Supreme Court to divest itself of its movie theater service division, ERPI. Three engineers of the division, led by George Carrington, formed the All Technical Services Company and bought the assets and service contracts. That company became known as Altec. It continued to perform service work but needed a manufacturing source for parts and large components. Hilliard knew the principals at Altec and suggested the purchase of Lansing's company. James Lansing agreed to the offer, and the Altec Lansing Company was formed in 1941.

Altec Lansing and JBL

At the time of the merger, there were nearly 300 Altec employees and fewer than 50 Lansing employees. James Lansing

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became vice president of engineering. Product emphasis was focused on theater sound systems until the outbreak of World War II. The company worked on an airborne submarine detection system, but wisely did not abandon new sound-product development. In the early 1940s, Altec Lansing introduced the 601 and 604 Duplex, loudspeakers, which incorporated a small multi-cell high-frequency driver with a large cone woofer. The 604 gained such a reputation it remained in the product line for decades and was the basis of other designs. John Hilliard joined Altec Lansing in 1943 to work on the airborne detection system for the Navy. He later collaborated with James Lansing on a vastly improved theater sound system. The Voice of the Theater was launched in 1945 and over the years earned a reputation worldwide as the finest in movie theater sound systems.

As part of the original buyout agreement with Altec, Lansing had to remain with the company for five years before going out on his own. This Lansing did, and those loyal to him went along. He founded Lansing Sound, Inc., in 1946. Carrington at Altec Lansing objected to the company name, so it was changed to James B. Lansing Sound, Inc. Lansing drew on his years of experience to design new 15-inch, 12-inch, and 8-inch woofers, and a new horn-loaded driver, the D175. The D130 15-inch woofer, introduced in 1948, was so well engineered it remained in production for decades, and continues today, with only subtle refinements, as the E130. The company produced its own version of the Iconic, but was barred from using the name. Lansing's reputation succeeded in landing the contract to outfit the west-coast chain of Fox movie theaters with his Shearer Horn system.

Nevertheless, Lansing struggled to keep his company afloat in the sluggish post-war economy. He secured additional funds through the Marquart Aircraft Company, but Lansing lost majority ownership in 1948 because of outstanding debts covered by Marquart. General Tire bought Marquart in 1949, but didn't want to shoulder the sound company's debts. One of the directors of Marquart overseeing Lansing, William Thomas, left the aircraft company to keep James B. Lansing Sound going. Thomas became majority stakeholder.

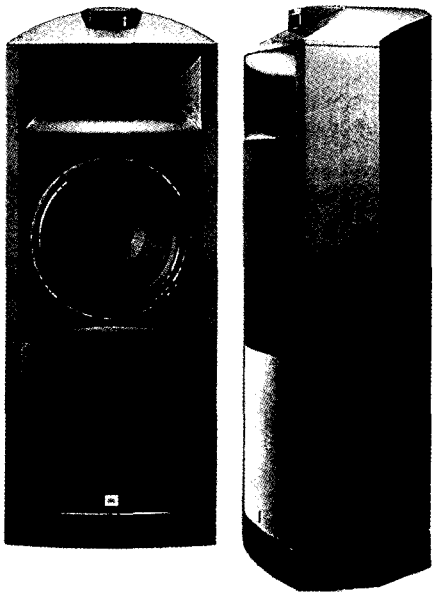

PHOTO: JBL, INC.

JBL's current "statement speaker," the K2S9800.

Changing Fortunes

Lansing despaired over the failing fortunes of his company, the numerous moves that disrupted business, and his loss of control. The company he once owned was drowning in red ink, and he saw no way out. On September 24, 1949, Lansing took his life.

Despite the shock, Thomas moved quickly to secure the company. A life insurance policy Lansing had taken out saved the company and permitted Thomas to get additional financing. He implemented a new business plan to increase sales and reduce manufacturing costs. In the early 1950s he implemented a marketing plan to make JBL a prestigious name among loudspeaker manufacturers and tap into the new audio world of consumer high fidelity. He brought in industrial designers and engineering consultants to produce new speakers for the high-end market. The first of these speakers, the Hartsfield, used the finest components in the JBL inventory, wrapped in a striking cabinet

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designed to be placed in the corner of a room. The Hartsfield garnered accolades from audio editors and discriminating consumers for its superb musical reproduction. The advent of stereophonic sound resulted in the Paragon, an even more visually striking console design introduced in 1957, which became a legend. It was so coveted it remained in JBL's lineup for more than 25 years. These speakers established a tradition at JBL of offering a top-of-the-line "statement speaker" that continues to this day. Thomas also changed the corporate name of the company to JBL to avoid further name conflict with Altec Lansing.

Altec Lansing was also producing outstanding designs of its own. It introduced a new Voice of the Theater home system in 1955 and offered other speaker designs for home-stereo use. Its professional line of speaker designs grew for indoor as well as outdoor concert venues. With the advent of stereophonic movie soundtracks, Altec Lansing had new systems to install in theaters around the world.

The 1960s and '70s were decades of tremendous growth for both JBL and Altec Lansing. During the 1970s, the companies fought for dominance of the recording-studio monitor market, with both claiming victory. In 1970 Altec Lansing dominated the studio monitor market, but by the late '70s, JBL was the most frequently chosen brand for studio recording and playback. Each company offered commercial home versions of its professional monitors.

In the decade following, both companies competed in specific markets of theater sound systems, live concert sound reinforcement, and the high-end home-speaker market. The 1990s were a tumultuous time for Altec Lansing, and at the start of the new millennium, it was JBL that had the strongest and broadest product line.

James B. Lansing pioneered many new and lasting speaker designs. Few products are so closely tied to the name of a company's founder. It is a name that continues to be associated with design excellence, quality, and product innovation. Lansing believed in his products that enriched the lives of countless people, surrounded himself with some of the best minds in audio to help him realize his vision, and cared about those who worked for him—traits that were also a part of those who succeeded him. Sadly, they are traits forgotten by a number of corporate leaders today. Those entrepreneurs who embrace them will find the greatest financial and personal success. □

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IDEAS ON LIBERTY
JANUARY 2003

Taking Drug Laws Seriously

One of the referendums in the November election "would have put thousands of drug offenders [in Ohio] into treatment programs instead of prison." The amendment was supported by many libertarians and friends of libertarians. Propaganda for it was generously funded by billionaires Peter Lewis, George Soros, and John Sperling. Voters rejected it by a ratio of 67 to 33 percent. I have long argued that medicalizing the law in general, and laws prohibiting drugs in particular, is stupid and wicked. I believe voters in Ohio did the right thing, but probably for the wrong reasons.

Libertarians believe that we own ourselves. Many nonlibertarians share that belief or give lip-service to it. If we accept the principle of self-ownership and the responsibilities that go with it, then it is none of the government's business what ideas we put into our heads or what substances we put into our bodies.

In what follows, I address only those persons—whose numbers seem to be rapidly diminishing—who agree with my two basic premises. One is that violations of the law, such as speeding or possessing marijuana, are behaviors prohibited by lawmakers. The other is that diseases, such as asthma and melanoma, are biological processes, that happen to our bodies.

Thomas Szasz (tszasz@aol.com) is professor of psychiatry emeritus at SUNY Upstate Medical University in Syracuse. His latest book is Liberation by Oppression: A Comparative Study of Slavery and Psychiatry *(Transaction, 2002).*

If we take these ideas seriously, it follows that it is the responsibility of certain agents of the state to punish individuals who break the law. The laws belong to the state; the punishments they prescribe are for its benefit, and hopefully the protection of the public, as when violent criminals are incarcerated. Similarly, it is the right of the sick person to seek or not seek treatment for his disease, as he deems best; the diseases that afflict him belong to him, and the treatment is for his benefit. By undermining the meaning of these elementary concepts and distinctions, the advocates of "treatment" for drug-law violators disorient our sense of justice and threaten our fundamental liberties.

The problem before us is simple. Self-styled drug reformers complicate the "drug problem" because they want to make themselves look civic-minded, compassionate, or learned. And, most important, because they want to feel good about themselves.

Let us begin with the "problem." People like to ingest various substances. People—sometimes different people, often the same people—like to prohibit individuals from ingesting what they want to ingest. Depending on time or place, the prohibited substance may be pork, alcohol, cigarette smoke, marijuana, Valium, or penicillin.

Ingesting a substance is an action. Some actions are deemed bad, are prohibited, and become crimes. In practice, however, a prohibited action is treated as a crime only when the actor is apprehended and prosecuted. This is why cynical but realistic observers of human affairs long ago con-

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cluded that criminal laws are aimed against the poor and the weak. The rich and the strong are likely to be able to violate the law with impunity or circumvent its restrictions, or both.

Since the three most wealthy and powerful drug-law reformers advocate "treatment" for drug-law violators, it is relevant to note that each has smoked marijuana with impunity and one does so currently. I conclude that they believe in punishing drug-law violators other than themselves and propose that the punishment be imposed by doctors and called "treatment."

The Disease: Using an (Illegal) Drug or Getting Caught?

According to *Time* magazine (November 4, 2002), billionaire Peter Lewis, a retired insurance company executive, "spends half the year on a $16.5 million, 225 ft. yacht, where he smokes pot regularly." He and his doctor think this a great improvement over his (excessive?) consumption of scotch.

George Soros, the billionaire financier, "wants to reform drug laws by replacing jail time with rehab [sic]." According to *Time*, Soros "has smoked pot but no longer does."

John Sperling, the billionaire Cambridge-educated economist and professor-turned-entrepreneur/founder of the University of Phoenix, smoked pot when he had cancer in the 1960s.

Here, then, is my simple question: For precisely what disease would these very rich former and present marijuana users have the less affluent marijuana users be "treated"?

Is the disease the use of the illegal drug per se? That cannot be. Lewis, Soros, and Sperling are highly intelligent men. Yet none, to my knowledge, has ever sought treatment for the dread disease that the most respected medical authorities in America call "drug addiction" or "substance abuse." If the disease is not the use of the illegal drug, then it must consist in getting caught possessing or using it. *That is the simple answer.*

This makes preventing the disease very difficult. How many people can afford their own expensive yachts on which to smoke pot? How many people have billions with which to shield themselves from the stings of the law aimed at catching and imprisoning poor drug offenders?

Not surprisingly, none of the billionaires is willing to debate drug czar John Walters, who cogently observes that "you don't hide behind money and refuse to talk and hire underlings and not stand up and speak for yourself." Instead of engaging Walters—*and his legion of supporters in medicine and psychiatry*—the billionaires and their hired guns pontificate about the moral failings of their adversaries. "The government's drug-reform [sic] policy," says Sperling, "is driven by a Fundamentalist Christian sense of morality that sees any of these illegal substances used as evil." That may be true, but it does not justify turning drug use into a disease. Furthermore, the American people and the American government were more influenced by a Fundamentalist Christian sense of morality in 1902 than they are today; yet, in 1902, Americans could buy all the heroin they wanted from a Sears Roebuck catalogue.

Ethan Nadelmann, Soros's drug guru, declares: "John [Walters] is a reactionary ideologue. It's the broader battle of what we tell kids about life." In an ideological war, it is reasonable for all the participants to be ideologues, and for ideologues on both sides to acknowledge it. Still, Nadelmann is partly right. The drug war is, *inter alia*, about "what we tell kids about life." The drug prohibitionists tell them one set of lies, for example, that marijuana is dangerous, but Ritalin is not. The drug medicalizers tell them another set of lies, for example, that using an illegal drug is a disease like diabetes and that being imprisoned by psychiatrists is "treatment" like injecting oneself with insulin.

Anyone for telling kids—and adults, too—the truth? □

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Power to the People?

by Michael C. Lynch

In his piece "The Power to Change the World: A Hydrogen-Based System Replacing Our Reliance on Oil Would Revolutionize Society" (*Los Angeles Times*, September 2, 2002), political activist Jeremy Rifkin lays out an argument for switching to a hydrogen-based economy. This, he states, is necessary because of looming petroleum scarcity. And given the attractiveness of omnipresent hydrogen and particularly the large-scale efforts now under way to develop fuel-cell automobiles, he argues the task should be pursued by society forthwith (that is, subsidized). However, while Rifkin seems to make a straightforward case, the premises on which he bases his arguments are either incorrect or severely exaggerated.

This is one of many instances where concern about long-term oil supplies has been used as a rationale for various policy proposals, and many have become alarmed about the warnings because of their wide publication, as well as the fact that they are (often) made by geologists and (always) purported to be scientific. Since the method used correctly predicted the peak of U.S. production three decades ago, it is assumed to be valid.

But the reality is that the new set of warnings is no more reliable than those of a quarter century ago, which predicted global upheaval by the mid-1980s, prices of $100 per barrel in 2000, and a huge shift in political power to commodity producers. The truth is that the opposite occurred, and the primary threat is from political instability in impoverished oil-producing countries that can't find markets for their overabundant resource.

Those worried about resource scarcity are relying on a flawed method, specifically the "Hubbert curve," named after a prominent geologist, M. King Hubbert, who correctly predicted in 1956 that lower-48 U.S. oil production would peak in 1970. Because of that, and little else, his method attained great credibility in the view of some. Yet he also predicted that the United States would run out of natural gas by now (production is relatively close to the historic record), and most others using his method have failed to predict national, regional or, global production—failed abysmally.

The model is extremely simple. It assumes that production will follow a bell curve whose entire length represents the total amount of oil that will be recovered. The only thing affecting the curve is geology: the amount of recoverable oil. (This is why the alarmists are so dismissive of economists' opinions on the subject.) Most alarmists are then taking estimates of the amount of recoverable oil in a region (or the world) and using it to predict a peak in production (the point where half has been produced).

The primary flaw is that the amount of oil *that is recoverable* depends not just on the

Michael Lynch (wilfrid@mit.edu) is a research affiliate with the Center for International Studies at the Massachusetts Institute of Technology.

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amount in the ground, but the technology available to recover it and the cost of production. Technological advances continually add to the "recoverable" resource base, as does economic progress. (Build a road into a region, and the cost of drilling a well drops.) Since the early 1950s, estimates of the amount of oil recoverable have grown from 1,000 billion barrels to about 3,000 billion recently, and while we are continually warned that our dependence on OPEC will grow, OPEC instead finds its market share falling.

The current crop of alarmists claims that they have resolved this problem, and that their estimates of the world's recoverable resources will not grow. Yet, they have also repeatedly *raised* their estimates, faster than world consumption has grown, in fact—an inconsistency they ignore. Indeed, Colin Campbell, one of the most prominent alarmists, now says that half the countries he has examined have already found more oil than he stated they would *ever* possess in his analysis five years ago.

Any Lessons Learned?

As a result, it is hard to see where the new alarmists have learned lessons from past cries of scarcity. In 1989, when most were arguing that oil prices would increase 50 percent over the next decade, Campbell insisted the production had already reached a peak and that prices would double or triple within a few years. (I predicted they would tend to decline because of abundant supply, which proved correct.) Since then, every few years he has reiterated his warning, always moving it further into the future. Oddly, though he continually sees production falling over the edge just beyond the (ever-receding) horizon, he derides his critics as "flat-earth economists."

In an excellent lesson for any policymaker, the alarmists' recent publicity reflects the particular nature of the publishing industry, not the validity of the work. Reporters prefer to report opposing positions without judging them, and most editors have little scientific background and thus are not qualified to judge claims by scientists. Also, few bother to check the validity of mathematical results and most assume that blunt statements must be true.

Having taken the time to investigate these claims in some detail, I found that they are seriously wanting. In part, the authors bolster their credibility by creating straw men, misrepresenting the arguments of those who disagree with them. For example, they refer to all of their detractors as "economists," which is untrue, and often make bold—but meaningless—statements such as: "Economists don't understand depletion," apparently to bolster the "scientific" nature of their work. Similarly, many of the authors make numerous vague representations about the beliefs of their opponents without attribution, many of them incorrect. And some of the attributed statements can be shown to be clearly misrepresented.

Most egregiously, they state that their methods are "robust" or that they have "checked the validity" or that a curve may be "extrapolated with confidence" without providing any supporting material. Worse, in each case their confidence can be shown to be misplaced. Jean Laherrere repeatedly publishes figures showing the decline in production of the Forties Field in the North Sea, arguing that it will continue in a straight line until production ceases, allowing the total recoverable resource in the field to be estimated. From that, he estimates national, regional, and global resources. Figures for only a few fields are ever shown, with no indication of how many do or do not conform to this model, implying that they all do. But when I examined a larger sample (large fields in the U.K. offshore), it turns out that the method fails more often than it works. Clearly, it cannot produce reliable results.

Ultimately, these gentleman are falling into a basic scientific trap, fitting data to a curve and then presuming that the curve must represent an immutable law of nature. This, however, is no more sophisticated than astrology. And given that the research to date has not only repeatedly failed, but can be shown at its source to be clearly invalid, it isn't even good astrology.

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Fuel-cell automobiles remain prohibitively expensive. For all the talk about auto manufacturers studying them, or promising demonstration vehicles, and so forth, they remain a toy of the very rich.

But that doesn't mean society shouldn't convert to hydrogen, if Rifkin's other arguments—that it would be easy—were true. Sadly, the subsequent steps in Rifkin's logic show no greater validity. For example, he calls for an effort comparable to that which created the World Wide Web to convert our economy to hydrogen. Any policymaker should blanch at the imprecision of such a statement. The World Wide Web was hardly a monumental effort: servers and software were the bulk of the investment needed, since it relies primarily on home computers and phone lines. That was in no way comparable to the enormous effort Rifkin is advocating.

A hydrogen economy would need not "hydrogen [which] is so plentiful and exists everywhere," but massive investment in power plants to generate said hydrogen. Pointing to the increasing use of renewable energy to generate electricity, which could then be used to produce hydrogen, is akin to pointing to the growth in space travel and urging interstellar colonization. Renewable electricity at present accounts for 0.1 percent of the total power generation in the United States, and producing enough hydrogen to displace, say, one-third of our oil use for transportation would require an expansion of the current level of solar and wind power by a factor of 80, at a cost of about $300 billion. This is not to mention the cost of the hydrogen plants, and the distribution facilities, as well as a huge number of cryogenic storage tanks, which would double or triple the cost, using conservative figures.

On top of that, fuel-cell automobiles remain prohibitively expensive. For all the talk about auto manufacturers studying them, or promising demonstration vehicles, and so forth, they remain a toy of the very rich. This is hardly alien to those like Rifkin, who can be called "Antoinettes" for their opposition to genetically modified organisms (their message to the poor: "Let them eat organic food, grown by hippies in Vermont"). But with the kind of damage that would be done by a trillion-dollar program to reduce our oil consumption by a mere 20 percent, there would be a lot fewer rich around to afford the toys.

What's worse is that this is a distraction from what might be accomplished. Since the oil crises in the 1970s, the amount of oil consumed per person has dropped by 15 percent, and consumption related to GDP by about 40 percent, all without any crash government programs or revolutionary technology—except perhaps SUVs. It is sadly typical of activists like Rifkin that voluntary accomplishments by the public are ignored, in favor of huge government programs and mandates. Let us hope policymakers will be more astute. □

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Fast Food and Personal Responsibility

by Ninos P. Malek

By now everyone knows that the fast-food chains are being sued because they allegedly contribute to obesity. On Fox's "Hannity and Colmes" program last July, Samuel Hirsch, the attorney who filed lawsuits against McDonald's, Burger King, Wendy's, and KFC on behalf of his client who blames them for his poor health, admitted that the restaurants are not completely to blame. But he added that their failure to post warnings about nutrition content and their sophisticated marketing strategies make them partly culpable.

Hirsch's claim that nutrition information is not available is false. Every one of these companies has its nutrition information available on its website, and I have seen nutrition-content posters at several fast-food establishments. But even if the restaurant provided no information, it is easy enough to learn from books, the Internet, television, and radio that certain foods can promote heart disease, diabetes, and high blood pressure. To hear Hirsch tell it, "working" parents must be stupid because they don't know what they are buying. With his use of the term "working" he was setting himself up as the champion of the "common man."

The ridiculous claim that corporations are responsible for people's health problems is nothing new. Remember the lawsuits against the tobacco companies? If you smoke let me ask you this: did an employee from one of the tobacco companies put a gun to your head and make you smoke a cigarette? I didn't think so. People who are dying because of smoking-related illnesses have nobody to blame but themselves. And it's the same for people who eat poorly. I have never seen Ronald McDonald with an M-16 forcing people to buy Big Macs. A person has to drive to McDonald's, order a Big Mac, and eat it on his own.

The lack of personal responsibility has even my high school students blaming their poor diets on the school cafeteria. Granted, our cafeteria sells burritos and pizza, but they also sell salads and other healthy food. And if that weren't good enough, I would tell them to wake up earlier and make their own healthy lunches. But that would involve a cost—waking up earlier. So I tell them to stop complaining and that they need to understand a simple economic concept—actions are what count. Obviously the benefit of eating their "bad" lunches outweighs the cost of waking up earlier or taking the time to make their lunches the night before. Eating unhealthy lunches is their choice.

Will ice cream companies be next? What about candy companies? And, God forbid, Starbucks! Caffeine may be bad for us, right? And all that whipped cream and caramel syrup in those Frappuccinos can't be good for us.

Thomas DiLorenzo and James T. Bennett

Ninos Malek (ninosmalek@hotmail.com) teaches economics at San Jose State University, De Anza College, and Valley Christian High School.

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in their book *From Pathology to Politics: Public Health in America* (2000) correctly predicted this absurd litigation. Their book also points out that many public-health "experts" are not so concerned about health as they are about politics and their social agenda, which means more government control over our lives. Even before lawyer Hirsch came on the scene, there were those who advocated "fat taxes." Not flat taxes, as supported by supply-side economists, but a tax on fat. In other words, foods that are considered "bad" will be taxed and foods that are considered "good" will be subsidized.

It's Your Life

Look, I am a "health nut" myself. I do not eat fast food (maybe once in a while), and I do not smoke cigarettes. I make a choice to eat that Subway sandwich with no cheese and no mayonnaise, rather than that juicy hamburger or large fries. I make the choice to go to the gym and lift weights and run. Get the picture? It's called personal responsibility. Those notorious restaurants exist because consumers want them to exist. While I may think smokers and people who live on fast food (like many of my friends) are unwise, it's their lives. They have to weigh their own costs and benefits. No company is forcing them to do anything.

At the end of the "Hannity and Colmes" show, both conservative Sean Hannity and "liberal" law professor and guest-host Susan Estrich agreed that it is up to the person to choose what to eat. They both laughed at Hirsch, who responded by saying, "In five to ten years you won't be laughing."

I think he's right. Unfortunately, I believe the laws will be changed to "protect" people from these evil companies. I tell my students that in ten years Starbucks will have bouncers at their door checking for IDs (and eventually Starbucks will be shut down because caffeine will be illegal). No more Jolt Cola or Mountain Dew for you high school students either unless you are 18. And cigars and cigarettes? I think we will see a new Prohibition on tobacco. The public-health movement will have a role in this socialist plot. As DiLorenzo and Bennett write in their book:

> The denial of individual responsibility for one's own life and well-being has become the keystone of the public health movement. For if individuals are responsible for their own health, who needs the "public" health establishment's political agenda? The very word "public" in this regard is a euphemism for "socialized." And once our health is socialized, then all behavior becomes the "legitimate" province of state control and regulation. But once it is agreed that the state has a "right" to control any and all behavior that might possibly have a negative effect on "public" health, then we are on the road to losing all of our privacy and our freedom.

Milton Friedman made the simple statement in his "Free to Choose" television series that a voluntary exchange will not take place unless both parties believe they will benefit. Every time you buy cigarettes or unhealthy food, and every time you do not buy food that's good for you, you are weighing your own costs and benefits. I give credit to those who keep quiet about personal health risks. It's the whiners and people who cannot accept responsibility that are irritating. As F.A. Hayek wrote in *The Constitution of Liberty*: "Liberty and responsibility are inseparable." □

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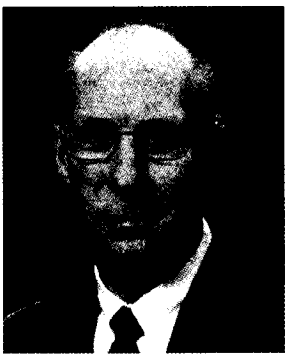

The Myth of U.S. Prosperity during World War II

World War II, the so-called Good War, has been a fount of historical fallacies. One of the greatest—and one of the most pernicious for subsequent policymakers—is the notion that prosperity prevailed during the war. Although Americans might have been dying in the Pacific and European theaters of war, people on the home front actually benefited from the war, because it propelled the economy at long last out of the Great Depression. This view of the war would be sufficiently egregious if it were true, but despite the claims of historians for the past half century, it is not true.

For most people, the myth of wartime prosperity rests on selective memory or, for the younger generations, on miseducation. Those who lived through the war at home recall the warm social solidarity; the "pitching in" to collect scrap metal, rubber, fats, and waste paper; and the ready availability of jobs in munitions plants. They forget the scarcity of decent housing, the hassles in commuting to work, and the severe rationing or complete absence of basic consumer goods. Younger generations have been given accounts featuring legions of strong, cheerful women assembling bombers, almost as if the war had been more a giant step in the long march of women's liberation than a global orgy of death and destruction.

Robert Higgs (rhiggs@independent.org) is senior fellow at the Independent Institute (www.independent.org), editor of The Independent Review, *and author of* Crisis and Leviathan.

Economists and historians, who have studied the home front more systematically, have succumbed to different sorts of errors. In general, they have claimed that prosperity prevailed during the war because unemployment nearly disappeared, because national production soared, and because even personal consumption increased. None of these claims holds water when examined carefully.

Yes, official unemployment did nearly disappear, falling from 14.6 percent of the civilian labor force in 1940 to just 1.2 percent in 1944.[1] What the orthodox account neglects, however, is that during that same period the government, mostly by conscription, increased the active-duty personnel of the armed forces by 11 million persons, equivalent to almost 20 percent of the total labor force (employed plus unemployed) in 1940.[2] If a nation shoves 11 million persons into military service and, as a result, reduces the number of unemployed persons by eight million, that performance scarcely signifies the achievement of true prosperity.

Yes, national output as conventionally measured did grow hugely during the war. As shown by the figure, gross domestic product (in constant 1987 prices) increased by 84 percent between 1940 and 1944.[3] What the orthodox account neglects, however, is that this "miracle of production" consisted entirely (and then some) of increased government spending, nearly all of it for war materials and equipment and military personnel. The private component of GDP (consumption plus investment) actually fell after 1941, and while the war lasted, private out-

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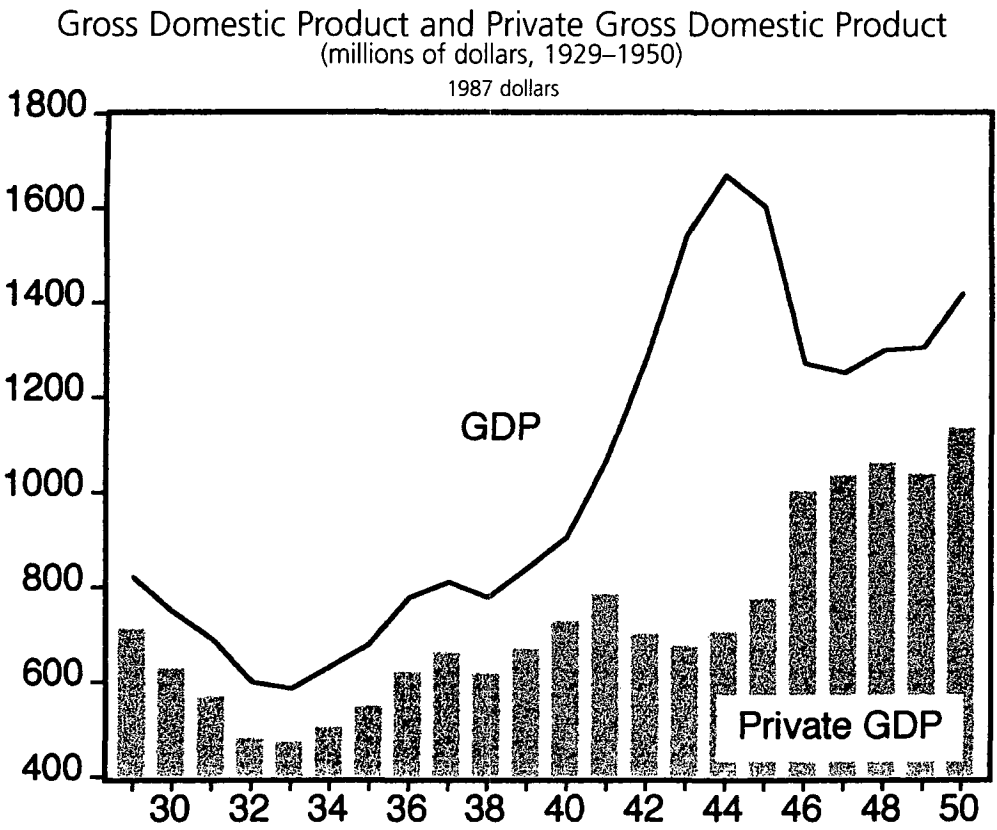

put never recovered to its pre-Pearl Harbor level. In 1943, real private GDP was 14 percent lower than it had been in 1941. If a nation produces an abundance of guns and ammunition, it does not thereby achieve genuine prosperity. As the figure shows, only after the war ended did the private economy—the part of the economy that directly or indirectly satisfies freely expressed consumer demands—recover fully from its 15-year slump.

Nor did personal consumption flourish during the war, notwithstanding historians' claims of a "carnival of consumption."[4] Because the government imposed comprehensive price controls during the war, and thereby encouraged pervasive black-market activity, official price indexes failed to record the true amount by which actual prices increased. Thus the increase of "real" (that is, inflation-adjusted) consumption spending during the war was overstated substantially. When even a conservative adjustment is made for this mismeasurement, the conclusion is that "real consumption per capita reached a pre-war peak in 1941, . . . declined by more than 6 percent during 1941–1943 and rose during *1943–1945*; still, even in 1945 it had not recovered to the level of 1941."[5] Because of the many other ways that the well-being of consumers deteriorated during the war, which the official data fail to capture, actual wartime conditions were even worse than these figures suggest.[6] □

1. U.S. Council of Economic Advisers, *Annual Report 1990* (Washington, D.C.: U.S. Government Printing Office, 1990), p. 330.

2. U.S. Department of Defense, Office of the Comptroller, *National Defense Budget Estimates for FY 1991*, March 1990, p. 126.

3. Data plotted in the figure derive from U.S. Council of Economic Advisers, *Annual Report 1995* (Washington, D.C.: U.S. Government Printing Office, 1995), p. 406.

4. John Morton Blum, *V Was For Victory: Politics and American Culture During World War II* (New York: Harcourt Brace Jovanovich, 1976), p. 90.

5. For the calculations and their basis, see Robert Higgs, "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *Journal of Economic History*, March 1992, pp. 49–52.

6. Ibid., pp. 52–53.

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There's No Such Thing as "Overproduction"

by Thomas E. Woods, Jr.

Almost stubborn economic fallacy, especially in my own discipline of history, is that in the unhampered market, output can exceed demand. This is the alleged problem of "overproduction." The result of this calamity, we are told, is that unsold surpluses pile up, leading to mass unemployment, since the natural solution to overproduction is to lay off workers and reduce production.

This fallacy is evident throughout all American history textbooks, especially with regard to two episodes. First, beginning in the late nineteenth century a wide spectrum of intellectuals and politicians began to advance the theory, never questioned by modern textbook authors, that if the United States were to avoid a depression it would need to gain access to additional foreign markets to dispose of its "surplus" finished goods. This thesis was seriously advanced by Captain Alfred Thayer Mahan, known for his book *The Influence of Sea Power on History* (1890), and appears to have been held in one form or another by many of the major opinion makers of the time.[1]

The second major episode is the Great Depression. Here again, we are told, America's productive capacity had outrun its ability to consume ("underconsumption" being a corollary of overproduction), and the result was the Depression. (Never mind that the downturn was actually much worse in capital-goods industries than in consumer-goods industries, or that the crash of 1929 became an intractable depression only after systematic and profoundly ill-advised government intervention.[2])

Any particular firm could have an interest in promoting the overproduction fallacy (even if it knows it is a fallacy) and its corollary, that the government must find foreign outlets for its excess goods. This is because each firm has a limit to how much of its product it can sell domestically at the price it wishes to charge. Anyone would be grateful if the state would help by "opening" foreign markets to its product so it can sell more at that price.

To the extent that the American economy would have drowned in excess capacity in the 1890s without increased exports, the source of the problem was not the market but interventionism, namely, protective tariffs. As Joseph Stromberg explains: "Tariffs made possible home prices which were well above free-market ones. At the same time, the tariffs created artificial gluts, since the full quantities produced could not be sold at the protected prices. Yet, in order to realize the lower unit costs, the full amounts had to be produced. As Andrew Carnegie put it, 'The condition of cheap manufacture is *running full*.'" The result, namely "specific, sec-

Thomas Woods (woodst@sunysuffolk.edu) holds a Ph.D. in history from Columbia University and is assistant professor of history at Suffolk Community College (SUNY) in Brentwood, New York. *He wishes to thank Professor Jeffrey Herbener for his helpful comments.*

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toral 'overproduction' relative to what could be sold in the home market at tariff-enhanced prices," led such firms to look to foreign markets to dump the excess.[3]

What, then, is the essential rejoinder to these endless warnings about overproduction? First, it is necessary to point out the obvious—namely, that people's wants are unlimited. Since we are not living in the Garden of Eden, not all wants are satisfied. So consumers will always want more goods: better cars, more spacious and elegant homes, additional computers, and a host of lesser products that people would doubtless want to have if only they were in greater abundance and hence carried lower prices. There is never any problem, therefore, in cultivating people's desire to consume. The issue is their *ability* to consume, and how it can be increased.

Say's Law

It is Say's Law, developed by the great nineteenth-century French economist J.B. Say, that ultimately explains why there can be no such thing as general overproduction in an unhampered market economy. This law is sometimes summed up as "supply creates its own demand," but this phrase can be misleading, seeming to suggest that all it takes to foster demand for some good is simply to supply it. In a related error, others have criticized Say for believing that overproduction is impossible in any sector of the economy, a claim he never made. Say was speaking not of individual industries but of the entire economy. In the aggregate, no general overproduction can exist, since production creates the means by which the producers (both capitalists and laborers) can consume. How, after all, apart from receiving alms, can people acquire the products they wish to consume without trading some product that they previously produced (or the proceeds from its sale)?[4] In this way, one's *supply* constitutes the means by which he can *demand* the consumer goods he wishes to own.

That the principle behind Say's Law is clearly true is most easily perceptible in a barter economy. Imagine such an economy in which three consumer goods are produced: apples, oranges, and hats. Now suppose the supply of apples doubles. Are we faced now with overproduction and inevitable depression? Obviously not; the creation of more wealth means greater prosperity. But the greater abundance of apples also means that they will lose some of their purchasing power in terms of oranges and hats. According to the law of diminishing marginal utility, orange and hat sellers will be willing to buy more apples only if they are asked to part with fewer of their own goods in payment. That is to say, the price of apples must fall. Thus the price level adjusts to accommodate the greater supply of apples within the existing purchasing power. Even if apple producers are (temporarily) worse off, there is no general overproduction.[5]

Overproduction in particular sectors of the economy is rapidly corrected in a free market. To illustrate this, Benjamin Anderson and George Reisman have asked us to suppose the country's productive power were somehow doubled. We certainly would not want twice as much of everything that we now buy. Most people's desire for table salt, for instance, is probably already sated. A doubled supply would likely constitute an overproduction of salt—but only to the extent that the other goods which consumers prefer to additional salt are *underproduced.* The increased capacity to produce salt would best be exploited, therefore, not by doubling the salt output, but perhaps by increasing it only slightly, if at all, and releasing the excess labor and capital to those industries where consumer demand is greater. Economic downturns, then, involve not excess aggregate output but a misallocation of scarce capital from the consumers' point of view.[6]

Say himself observed that resources tend to move out of areas where there is a glut and into underexploited areas where increased production holds the prospect of profit. This is sometimes referred to as the uniformity of profit principle. He appears to suggest, however, that political manipulation can interfere with this natural and salutary process: "One kind of production

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Say's Law reminds us of what should be obvious: consumption follows *production, both logically and temporally. To consume more, we must increase our real demand for goods in the only way possible—through greater* production.

would seldom outstrip every other, and its products be disproportionately cheapened, were production left entirely free."[7]

Thus while Say's Law holds in a free market, political intervention can create the economic problems and radical disorder we sometimes encounter.

Say's conclusion also suggests why it is wrongheaded during poor economic times to believe that the way out lies in an artificial stimulus to *consumption*. Say's Law reminds us of what should be obvious: consumption *follows* production, both logically and temporally. To consume more, we must increase our real demand for goods in the only way possible—through greater *production*. What increases our real ability to buy is not a mere increase in green paper tickets that the government can bring about through inflation, but rather an increase in what we ourselves produce so that we can acquire the goods we want.

Consumptive Expenditure

Adam Smith made the crucial distinction between consumptive expenditure and productive expenditure. Consumptive expenditure uses up some good without providing for its replacement, such as when a person wears out an air conditioner in his home after a series of hot summers. Productive expenditure involves the expenditure of resources for the purpose of creating still more (and/or more valuable) resources in the future, such that the products more than compensate for the goods consumed in their creation. Investment in machinery that increases productivity in some sector of the economy can be an example of productive expenditure. The free market adjusts productive capacity throughout the production structure in accordance with consumer desires—a greater desire to consume leads to a less extensive capital structure and more consumers' goods in the present, while less consumption in the present results in a more extensive capital structure and fewer consumers' goods in the present.

James Mill noted the fallacy of economists' obsession with consumption:

> A thousand ploughmen consume fully as much corn and cloth in the course of a year as a regiment of soldiers. But the difference between the kinds of consumption is immense. The labor of the ploughman has, during the year, served to call into existence a quantity of property, which not only repays the corn and cloth which he has consumed, but repays it with a profit. The soldier on the other hand produces nothing. What he has consumed is gone, and its place is left absolutely vacant. The country is the poorer for his consumption, to the full amount of what he has consumed. It is not the poorer, but the richer for what the ploughman has consumed, because, during the time he was consuming it, he has reproduced what does more than replace it.[8]

In effect, then, exhortations to consume more, or to engage in fiscal policies designed to encourage consumption, essentially prescribe the destruction of wealth as a remedy for economic sluggishness. Rather, we should direct our efforts toward freeing production, the essential source of consumption.

In practice, of course, we do encounter economic difficulties and adjustment prob-

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lems, but these problems exist because state intervention has impeded the normal adjustment process that rectifies capital misallocation. Sean Corrigan explains why displaced workers often find themselves having difficulty finding employment elsewhere in the economy:

> They are unable to find an outlet for their particular skills and talents because the matrix of relative (never absolute, much less average) prices has been made replete with harmful rigidities—thanks to the Fed and the rest of the government—and so cannot adjust to offer them a niche.
>
> Moreover, such niches as do exist are harder to exploit to their maximum because so much scarce capital has been wasted or misallocated, giving people fewer tools with which to work.[9]

According to the Austrian theory of the business cycle, moreover, the artificially lower interest rates that result from central-bank credit expansion lead to misallocations of capital to projects that will yield consumer goods further into the future than real conditions warrant. That is, the rates mislead investors into believing that consumers are more willing to *defer* purchases than they actually are (since lower interest rates also come about when the savings pool increases). This kind of credit creation in the 1920s is what made the 1929 bust possible and indeed inevitable.

Such government intervention leads to the allocation of investment funds to areas of production that in the absence of central-bank credit would be seen as unprofitable. As a result, recessions and depressions do occur, but they do not disprove Say's insight. To the contrary, they demonstrate the foolishness of state intervention, which impedes what would otherwise be a natural adjustment of production processes toward a condition in which capital is allocated according to consumer desires.

The alleged problem of overproduction, therefore, about which a great deal more could be said, is no problem at all.[10] The reason we are so much wealthier now than we were 300 years ago is not that we consume more today. We consume more today because we can produce much more, and it is this production that itself both fuels our ability to consume and increases our standard of living. □

1. See Walter LaFeber, *The New Empire: An Interpretation of American Expansion*, 1860–1898 (Ithaca, N.Y.: Cornell University Press, 1963).

2. Murray N. Rothbard, *America's Great Depression*, 4th ed. (New York: Richardson & Snyder, 1983).

3. Joseph R. Stromberg, "The Role of State Monopoly Capitalism in the American Empire," *Journal of Libertarian Studies*, Summer 2001, p. 71.

4. Receiving alms is not a violation of Say's Law since the provider of the alms must have produced some good and/or earned the proceeds from the sale of some good.

5. For a detailed discussion of this issue, see George Reisman, *Capitalism* (Ottawa, Ill.: Jameson Books, 1996), pp. 559ff. Reisman also shows how even the apple growers themselves stand to benefit in the long run.

6. Benjamin M. Anderson, *Economics and the Public Welfare: A Financial History of the United States, 1914–1946* (Indianapolis, Ind.: Liberty Press, 1979 [1949]), p. 385; Reisman, p. 567.

7. Quoted in William L. Anderson, "Say's Law: Were (Are) the Critics Right?" Paper presented at the Seventh Austrian Scholars Conference, Auburn, Alabama, p. 11.

8. James Mill, *Commerce Defended*, chapter 4 "Consumption," www.capitalism.net/Jamesmil.pdf, p. 7.

9. Sean Corrigan, "Say's Law for Our Time," Mises.org, September 5, 2002.

10. For more advanced reading on Say's Law, see Ivan C. Johnson, "A Reappraisal of the Say's Law Controversy," *Quarterly Journal of Austrian Economics*, Winter 2001, pp. 25–53.

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The Intellectuals and Interventionism

by Adam Young

Many have noted how the political mainstream is defined by a narrow spectrum that varies between moderate and extreme forms of intervention into private affairs. In a short essay published in 1949, "The Intellectuals and Socialism," F. A. Hayek gave several reasons why intellectuals, or what we today call pundits or political commentators, tend toward statism.[1] On the heels of the current recession, these reasons illuminate the consensus for more state intervention and the renewed calls for the standard alleged remedies, from pump-priming interest-rate cuts on the left, to warfare statism on the right.

A typical representative of the former is Paul Krugman, the *New York Times* columnist and recurrent panelist on CNN's "Moneyline." Professor Krugman has on several occasions floated the standard old Keynesian standby explanation that recessions are caused by evaporating consumer demand, which in turn causes rising unemployment and the rash of bankruptcies and liquidations that signal a recession. The obvious remedy is to artificially stimulate demand by encouraging the accumulation of additional consumer debt.

An example of the latter is Lawrence Kudlow, the *National Review* columnist and television financial commentator, who wrote, "The shock therapy of decisive war will elevate the stock market by a couple-thousand points. We will know that our businesses will stay open, that our families will be safe, and that our future will be unlimited."[2] In Mr. Kudlow's view, companies can recover their bottom lines by joining the war effort, supplying goods and services to the expanding state. And taxpayers can rebuild their hollowed out portfolios by piggybacking on tax-funded defense contractors.

These two examples are not isolated cases. The collapse of the stock-market bubble, the 9/11 terror attacks, and the ensuing "war on terror" have brought forth among Americans a broad approval for renewed statism. Pundits and commentators in particular have followed this reversal of fortune with serious claims about the failings of a society with too much freedom, as if there could be such a condition, and have drawn from the collapse of Enron, Global Crossing, and WorldCom the conclusion that trade and enterprise are inherently corrupt and pose a danger to the public.

As many libertarians have struggled to explain, the boom and bust are the results of previous monetary interventions, but the diagnosis of the mainstream intellectuals misses the fact that the Federal Reserve, the central bank, was the silent and unacknowledged partner in the excesses now coming to light.

In his essay, Hayek described intellectuals as "second-hand dealers in ideas," by which he meant propagators of ideas, rather than

Adam Young (adamyoung@hotmail.com) is a freelance writer studying computer science in Ontario, Canada.

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the original discoverers of new knowledge—in essence, those who guide and educate, or miseducate as the case may be, public opinion. Hayek described the pervasive influence of the intellectuals by noting that "[t]here is little that the ordinary man of today learns about events or ideas except through the medium of this class; and outside our special fields of work we are in this respect almost all ordinary men." Hayek noted the power of the intellectuals in deciding what views, opinions, and facts we're to be told of, and what slant they will be told from: "Whether we shall ever learn of the results of the work of the expert and the original thinker depends mainly on their decisions."

Those familiar with the Austrian tradition are fully aware of the truth of this statement. The pioneering work of Ludwig von Mises and Hayek himself are virtually absent from the ideas discussed and advocated by mainstream intellectuals. Why is it that the intellectual class is so hostile to genuine free-market ideas?

Hayek speculated that the reason lies in the occupation of the commentator itself. He simply lacks the direct knowledge that experience provides from what Hayek called "the administration of property." Consequently, intellectuals lack firsthand knowledge of direct responsibility for business matters, and this distinguishes the intellectual from others who make a living from speaking and writing.[3] Most intellectuals would counter that, far from being a handicap, this alleged absence of economic self-interest allows commentators to be selfless and neutral observers, besides being able to exercise good citizenship.

Progressive-Era Origins

How interventionist ideas came to predominate can be more or less traced back to the Progressive Era in American history. In two essays, "World War I as Fulfillment: Power and the Intellectuals" and "Origins of the Welfare State in America," the late Murray N. Rothbard described how the turn of the twentieth century came to be characterized by a movement for state intervention throughout the economy.[4] Certain ideas about society and the state were combined with a secularized religious fervor that saw in an expanding interventionist state the instrument to counteract the alleged evils of laissez faire. These ideas were propagated by the dominant intellectual class.

As Hayek pointed out, the commitment to a worldview, or *Weltanschauung*, is what first motivates the intellectual. And the origin of the Progressive, or collectivist, worldview is the error that is the source of the horrors of the twentieth century, namely, that as "man has learned to organize the forces of nature . . . [he has come to believe] that a similar control of the forces of society would bring comparable improvements in human conditions." With this belief, it was only a short step to apply engineering principles to devise "a single coherent plan [for] . . . the direction of all forms of human activity." And so central planning was born.

Hayek thought that intellectuals were attracted to interventionism because they mistakenly believe that man is no different from the clay the sculptor molds to create his art. The analogy was first used by Frédéric Bastiat. In believing this, interventionists mistakenly apply the empirical method to human action and are able to convince others using the prestige of mechanical engineering that their schemes for social engineering are truly humane and just.[5]

The current mainstream intellectual worldview is still one that views the economy as a human version of a Rube Goldberg contraption: inexplicable in operation, but prone to endless tinkering. And with this worldview in place, not surprisingly, intellectuals favor those ideas that reinforce their desire to advise, manipulate, and tinker. As Hayek explained: "the intellectual . . . judges new ideas not by their specific merits but by the readiness with which they fit into his general conceptions, into the picture of the world which he regards as modern or advanced." And: "his criterion must be consistency with his other views and suitability for combining into a coherent picture of the world. Yet this selection from the multitude of new ideas presenting themselves at every

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moment creates the characteristic climate of opinion, the dominant *Weltanshauung* of a period."

Pressure Lobbies

But it doesn't end there, of course. This worldview has long since spread far beyond merely the media. Hayek linked its spread to the proliferation of pressure lobbies and their associated incentives and interests. A major consequence of this is the widespread devaluation of expert knowledge in favor of general knowledge. As Hayek said, instead of experts in a field, "It is rather the person whose general knowledge is supposed to qualify him to appreciate expert testimony, and to judge between the experts from different fields, whose power is enhanced." And being generalists, these intellectuals "judge all issues not by their specific merits but, in the characteristic manner of intellectuals, solely in the light of certain fashionable general ideas." Since they are not experts, intellectuals are easily swayed by ideas that are already popular with their friends and colleagues.

So while the number of pressure organizations and their influence increased, the actual knowledge and expertise of their members declined. "Even though their knowledge may be often superficial and their intelligence limited, this does not alter the fact that it is their judgement which mainly determines the views on which society will act in the not too distant future," Hayek wrote, and because of their influence as "opinion-makers" "it is their convictions and opinions which operate as the sieve through which all new conceptions must pass before they can reach the masses."

With this role in society today, the intellectuals have come effectively to steer debate by their de facto control over who becomes famous as a thinker. Hayek alludes to those who have undeservedly achieved reputations "solely because they hold what intellectuals regard as 'progressive' political views." And this control over reputation has had other effects. "This creation of reputations by the intellectuals is particularly important in the fields where the results of expert studies are not used by other specialists but depend on the political decision of the public at large." That is, the choices of intellectuals in turn influenced the choices presented to the electorate by politicians during elections.

Using their influence on the culture, intellectuals have been able to exert a degree of control over what information about current issues the public is exposed to. And using the ideas picked up from the intellectuals, politicians have advocated reforms for education, especially higher education, where the process is reinforced. (Hayek believed that the majority of university teachers have to be classified as intellectuals rather than as experts.[6])

The education establishment for several generations now has produced new intellectuals firmly indoctrinated in the worldview of interventionism and "market failure." As a result of the social influence of intellectuals in regulating the ideas that students and the general public are exposed to, Hayek noted that "in most parts of the Western World even the most determined opponents of socialism derive from socialist sources their knowledge on most subjects on which they have no first-hand information." A man, he said, "cannot disagree with a socialist analysis in a field in which he has no knowledge."

Secure in their tenured positions, academic intellectuals are free to indoctrinate students in the same manner as intellectuals indoctrinate the general public, by restricting ideas and applying erroneous knowledge. Ostracism and fear of failure keep any dissenters in check. As Hayek put it: "The forces which influence recruitment to the ranks of the intellectuals . . . help to explain why so many of the most able among them lean towards socialism." He described this phenomenon of interventionist peer pressure like this: "although outside intellectual circles it may still be an act of courage to profess socialist convictions, the pressure of opinion among intellectuals will often be so strongly in favour of socialism that it requires more strength and independence for a man to resist it than to join in what his fellows regard as modern views."

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While intellectuals today generally no longer advocate any school of orthodox socialism, they still are largely motivated by the same myths that motivated the socialists of the past. All mainstream commentators on the ups and downs of the economy interpret these events through the miseducation they received from mainstream economics training. For example, behind their calls for artificially low interest rates is the belief that the business cycle is a natural unavoidable phenomenon of the free-market system of savings, investment, production, and consumption. In particular, their prescriptions to prevent another Great Depression are formed by the mainstream interpretation that the welfare/warfare-state schemes of Franklin Delano Roosevelt's New Deal saved capitalism from itself and that World War II, with its controls, quotas, rationing, and super-patriotism, brought the country out of depression. (See Robert Higgs's column, p. 35.)

Twentieth-Century Story

This is the mainstream view of the history of the twentieth century, taught in high schools and college economics courses, and repeated by columnists and pundits far and wide whenever the downward slump of the business cycle comes around. The "failures" of capitalism are ingrained in the interventionists' worldview, and the unfortunate effect of this interpretation of history is that the same mistakes are repeated again and again, year after year, decade after decade. Generations of intellectuals and the public have been indoctrinated with the myths of statism.

Hayek concluded his essay with an appeal for a libertarian program that sticks to principle, for intellectual leaders committed to resisting the lure of power and political influence, and for those who will have the courage to fight for libertarian ideas against all odds.[7] In the years since he wrote "The Intellectuals and Socialism" there have been many setbacks, but the idea of liberty has grown in prominence. As Hayek noted: "The intellectual revival of [classical] liberalism is already underway in many parts of the world." But he could still ask, "Will it be in time?"

Unfortunately, it is still possible to ask this question. Yet thanks to Hayek's inspiring example and labors, many have been brought over to the idea of liberty, just as he himself was by reading Ludwig von Mises. It is up to us to continue their work. □

1. F. A. Hayek, *The Intellectuals and Socialism* (London: St. Edmundsbury Press/ Institute of Economic Affairs, 1998 [1949]).
2. Lawrence Kudlow, "Taking Back the Market—By Force," National Review Online, June 26, 2002, www.nationalreview.com/kudlow/kudlow062602.asp.
3. Hayek, p. 13.
4. Murray N. Rothbard, "World War I as Fulfillment: Power and the Intellectuals," *The Journal of Libertarian Studies*, Winter 1989, and "Origins of the Welfare State in America," *The Journal of Libertarian Studies*, Fall 1996.
5. Hayek, p. 18.
6. Ibid., p. 20.
7. Ibid., p. 26.

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IDEAS ON LIBERTY
JANUARY 2003

How Much Do the Public Schools Waste?

by John T. Wenders

Governments in the United States currently spend about 4 percent of gross domestic product on "public" schools.[1] Those schools also employ about 4 percent of the nation's workforce. Although few will admit it, public education is clearly an anachronistic, socialist institution, with all of the characteristics of a typical Soviet enterprise. As such, one would expect it to display the inefficiency that eventually brought a collapse of the communist/socialist economic system, and that this inefficiency would lead it too to wither. Yet public education continues to thrive in market economies, where it has a host from which it can draw sustenance to mask its inefficiencies. My purpose is to estimate the degree of inefficiency in the U.S. public schools with a view to exposing the extent of its burden on the American people.

The obvious way to estimate the inefficiency is to compare its costs to those of private schools, which, because they are faced with parental choice, have much greater incentives to operate efficiently. While relevant, for two reasons, such comparisons must be done with some care and caveats.

First, while private schools undoubtedly feel the pressures of choice, they also operate under the protective umbrella of the public-school system. Their market environment is hardly a fully competitive one. Faced with universal, "free" public schools as competitors, private schools have emerged and thrived in niche markets. While it is true that private schools must be more market-oriented and leaner than their government counterparts, to some extent they are actually protected in their niches by the public-school umbrella under which they serve. As one private-school administrator once remarked to me: "It's hard to look bad with the public schools as competition." The point is that one should not presume that present private schools are a good example of the schools that would emerge under a fully competitive system.

A second problem is the lack of systematic collection of private-school cost data. Since most education data collection is by government agencies or teachers' unions, both of which have large stakes in public education, a cynic might speculate that this vacuum is due to the education establishment's fear of what it might find. And, as we shall see, for good reason. Further, private schools are more eclectic, ranging from strict religious schools to expensive, elite boarding schools. The fact that most private schools have some kind of religious affiliation raises the issue of employees who may be paid less than market wages. Nevertheless, the statistics that do exist, taken together with various ways of adjusting these data for some private-school peculiarities, give us a reasonable estimate of the efficiency advantages of private education.

John Wenders (jwenders@uidaho.edu) is professor of economics, emeritus, at the University of Idaho.

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Teacher Salaries and Benefits. Salaries and benefits are the largest operating costs of any school in lower education. Using data from the 1987–88 National Center for Educational Statistics (NCES) Schools and Staffing survey, Dale Ballou and Michael Podgursky found average public and private-school teacher salaries to be $26,458 and $17,434, respectively.[2] (An adjustment was made for teachers who were members of religious orders by excluding all Catholic teachers who were never married.) This shows that private salaries are on the average 65.9 percent of those in public schools. In 1993–94 another study found private school salaries to be 64 percent of public-school teachers' salaries.[3]

Both data sets ignore benefits, such as health insurance and retirement contributions, which are much higher in the public schools. Benefits are about 31.3 percent of salary in the public sector as a whole and 15.8 percent in the private sector.[4] Benefits averaged 26.2 percent of salary for U.S. public-school teachers from 1994–99.[5] Teachers' benefits in public schools are much higher than in private schools.[6]

Greater Pay Flexibility

There are other differences in teachers and teaching between public and private schools that may make their teachers' pay not strictly comparable. Since a large fraction of the private schools have a religious affiliation and practice selective admission, lay teachers may be willing to work for less money. The same may be true because of the greater independence and less bureaucratic control in private schools. On the other hand, private schools tend to employ higher-quality teachers from more selective colleges. Private schools have proportionately more secondary teachers who have an academic major but about the same who major in math and science. Because of this, combined with greater pay flexibility, private schools hire and keep teachers of higher quality. Unionization is much lower in private schools, and these schools may have to pay more because few grant tenure. Tenure is virtually universal in public schools after two to three years.[7] While these differences cut both ways, it is highly unlikely that the large discrepancy between public- and private-school compensation is completely explained by these variations in teacher characteristics.

On the whole, these data are in clear agreement that private-school teachers' salaries are in the range of 60 percent to 70 percent of those in public schools. When benefits are taken into account, the best estimate of comparable total compensation is undoubtedly closer to the 60 percent figure. Clearly, a large portion of the waste in public-school education has been captured by the public-school teachers, partly due to the 80-plus percent unionization rate there.

Direct Measures of Public and Private Per-Pupil Costs. John R. Lott, using data from NCES, estimated expenditures per pupil in private Catholic schools to be 54.7 percent of those in public schools in 1976–77, and 51.6 percent in 1977–78.[8] Lott adjusted for lower-paid religious teachers by doubling their pay for computational purposes.

There is only one other study that tries to directly estimate per pupil expenditures for U.S. private schools.[9] Using various estimating techniques, this study found private per-pupil costs for all private schools in 1991–92 to range between $3,375 and $3,550, or about 67.2 percent and 70.7 percent of public-school costs for that year, which were $5,023 per pupil.[10] (It should be noted that the reported public-school costs exclude the costs of the state bureaucracy, which are not insignificant.) When the elite college preparatory schools are excluded from these data, private school costs fall to about $2,883 per pupil, or 57.4 percent of the comparable public-school cost.

For Catholic schools alone, the study found costs to be $2,378 per pupil, or 47.3 percent of public-school costs. The latter estimate is consistent with the results found by Lott for Catholic schools, considering that Lott made an upward salary adjustment for the low pay for religious teachers.

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For religious schools other than Catholic and Lutheran the per-pupil cost estimate was $3,048, and for nonsectarian schools the estimate was $2,967. These estimates are undoubtedly more relevant than those that include the Catholic and Lutheran schools for they probably do not include religious (non-lay) teachers who have lower pay. These religious and nonsectarian schools per-pupil costs are 60.7 percent and 59.1 percent of comparable public-school costs, respectively.

If we exclude the unadjusted Catholic school costs, and average the higher Catholic schools costs found by Lott (54.7 percent), the private school costs, excluding the elite prep schools (57.4 percent), and the average of other-than-Catholic-and-Lutheran secular and non-secular costs (59.9 percent), we find private-school costs per pupil average about 57.3 percent of public schools' costs.

Special Education. The establishment's response to such an assessment of the relative costs of private education is to bring up the bogeyman of "special education." Special education is a program created by a federal mandate under the Individuals with Disabilities Education Act of 1975 (IDEA). It is an underfunded mandate that requires local public schools, but not private schools, to provide special education services to children with disabilities. Eliminating the burden of special education on public schools has little effect on the cost differential between private and public education.

Special education students in 1999–2000 were 11.8 percent of the total. This figure is undoubtedly inflated because it includes a large and growing number of students diagnosed with specific learning disabilities (SLD), a subjective designation that simply indicates low academic achievement, rather than disability. About 40 percent of the students in special education are there "simply because they haven't learned how to read."[11]

Inflated Costs

The President's Commission on Excellence in Special Education found the total cost of a special-education student to be $12,474 in 1999–2000, or about 1.7 times the total per-pupil cost of $7,340.[12] However, the latter figure also includes special-education expenditures. Applying a little algebra reveals that the estimated cost of special education is about 1.875 times that of a nonspecial-education student. This corresponds rather closely with the Department of Education's estimate of 1.9. This means, for example, that instead of private education's per-pupil cost being about 57.3 percent of the cost of public education, when the full inflated special-education burden is taken into account, private education's per pupil costs rise about 10.1 percent—to 63.2 percent of those in comparable public education. Thus private education is still much cheaper.

More reasonably, if one assumes that the special-education students classified as having SLD remained the same proportion of the total as they did in 1976—1.8 percent instead of 6 percent—producing a total in special education of 7.6 percent in 1999–2000, private education's per-pupil costs relative to those in comparable public education rise only 6.1 percent—from 57.3 percent to 60.8 percent.

The Waste. All things considered, these various cost comparisons have a remarkable consistency: the most relevant ones show private-school costs at roughly 55 to 60 percent of the costs of public schools. Special-education considerations raise these only another 6 to 10 percent, to roughly 63 percent. Using the latter figure, this means that roughly 38 percent of public-school expenditures is dissipated or wasted. Let us put this waste in perspective.

For 2000–01, NCES estimated total annual current expenditures for public schools to be about $333.8 billion.[13] Assuming an additional 17 percent for capital outlays and interest, this brings total annual estimated U.S. public-school expenditures to about $391.7 billion. Applying the waste estimate of 38 percent, this shows that public education wastes about $148.9 billion annually. That is about 1.57 percent of GDP, or about $529 per capita in the year 2000.

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The waste does not end there. Both businesses and institutions of higher education now must spend considerable money making up for the failure of the public schools. Jay Greene found that this conservatively amounts to $16.6 billion annually in the United States.[14] It is no coincidence that the greatest growth in the establishment of community colleges, where remedial education is concentrated, and the surge in the formation of private elementary and secondary schools, came during 1960–1980, when the decline in public-school performance was the greatest.

Thus the economic cost of deficient public education is not limited to the obvious waste there. All told, the total amount wasted is at least $166 billion annually, about 1.66 percent of GDP, or $588 per capita for the year 2000.

The conclusion is inescapable: U.S. public education is much more expensive than private education, and, aside from producing an inferior education, its waste is a significant drain on the American people.

In the large, socialism has clearly failed. But in the small, where it has a host from which to draw sustenance, it prospers. Marx predicted that socialism would replace capitalism. It is ironic that socialist institutions survive only as parasites on capitalism. □

1. With considerable reservation, I use the term "public" education throughout, even though the term "government" education is more accurate. Unfortunately, as with our public lands and public television, the use of the term "public" lends a false legitimacy to what are clearly failed government enterprises.

2. Dale Ballou and Michael Podgursky, *Teacher Pay and Teacher Quality* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1997), Table 6.1, p. 131.

3. Donald H. McLaughlin and Stephen Broughman, *Private Schools in the United States: A Statistical Profile* (National Center for Education Statistics: Working Paper NCES 97-459, 1997), Table 3.12, p. 93.

4. U.S. Census Bureau, *Statistical Abstract of the United States 2000*, www.census.gov/prod/2001pubs/statab/sec13.pdf, Table 691, p. 435.

5. Data computed from tables labeled "Expenditures for Instruction in Public Elementary and Secondary Schools, by Subfunction and State" in National Center for Education Statistics, *Digest of Education Statistics*, 1998, 1999, 2000, U.S. Department of Education, Office of Educational Research and Improvement, NCES Publications 1999–036, 2000–031, 2001–034, http://nces.ed.gov/.

6. McLaughlin and Broughman, Table 3.13, p. 94; Dale Ballou and Stephanie Soler, "Addressing the Looming Teacher Crunch," Progressive Policy Institute, Feb. 1, 1998, www.ppionline.org/ppi_ci.cfm?contentid=1652&knlgAreaID=110&subsecid=135, endnote 6; and Ballou and Podgursky, p. 154, note 2.

7. Ballou and Podgursky, p. 145.

8. John R. Lott, Jr., "Why Is Education Publicly Provided?" *The Cato Journal*, Fall 1987, p. 476.

9. The data in this and the next two paragraphs come from: Michael Garet, Tsze H. Chan, and Joel D. Sherman, *Estimates of Expenditures for Private K-12 Schools*, National Center for Education Statistics, NCES Working Paper #95-17, May 1995.

10. National Center for Education Statistics, *Digest of Education Statistics, 1996, 2001* (Washington, D.C.: U.S. Department of Education, Office of Educational Research and Improvement), NCES Publications 96-133, 2002–130, Table 167, http://nces.ed.gov/pubs2002/digest2001/tables/dt167.asp.

11. President's Commission on Excellence in Special Education (PCESE), *A New Era: Revitalizing Special Education for Children and Their Families* (Washington, D.C.: U.S. Department of Education, Office of Special Education and Rehabilitative Services. 2002), www.ed.gov/inits/commissionsboards/whspecialeducation/reports/index.html, pp. 3, 24–25. See also Jay P. Greene, "The Myth of the Special Education Burden," Commonwealth Policy Brief, vol. 2002, No. 7, August 2002, Commonwealth Foundation for Public Policy Alternatives, Harrisburg, Pa., www.commonwealthfoundation.org/education/pb02-07.pdf.

12. *A New Era*, p. 30.

13. *Digest of Education Statistics, 1996, 2001*, Table 161, http://nces.ed.gov/pubs2002/digest2001/tables/dt161.asp

14. Jay P. Greene, "The Cost of Remedial Education," Mackinac Center for Public Policy, August 31, 2000, www.mackinac.org/article.asp?ID=3025.

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IDEAS ON LIBERTY
JANUARY 2003

Technology in Perspective

What role does technology play in creating prosperity? Recently, I was involved in a heated e-mail debate on this question.

Although technology is unquestionably important, it is not the key to prosperity. Much more fundamental and vital is the institution of private property fashioned and enforced by a genuine rule of law.

Those who disagree—those who insist that our prosperity comes principally from advances in technology—point to the obvious fact modern man relies heavily on science and its many amazing fruits. In our homes we have electrically powered machines that wash our clothes, refrigerate our food, and enable us to listen to music ranging from that of Elgar to Elvis to Eminem. These marvels are themselves produced by other machines made possible because of countless, relatively recent advances in scientific knowledge. Even agriculture is today immensely dependent on science. Clearly, we live in a world suffused with technology.

But a moment of reflection makes plain that technology is no root cause of material prosperity. If it were, living standards around the world would equal those of Americans. The people of North Korea, Cuba, and Mozambique would live as well as the people of North Carolina, California, and Montana. After all, technology is a complex of useful knowledge about physical reality; and such knowledge, once created, is quite easy to transmit and to copy.

But Americans (even those of us who are ignorant of even elementary scientific facts) are wealthier than Canadians who are wealthier than Greeks who are wealthier than Rwandans. Why? Why does the technology allegedly responsible for making Americans extraordinarily wealthy not do exactly the same for peoples in other parts of the world? Without question, something else besides technology is at work in determining the wealth of nations.

That "something else" is freedom. Studies of the relationship between freedom and prosperity show time and again that the freer the people the more prosperous the people. James Gwartney and Robert Lawson, in a massive scholarly study sponsored by the Cato Institute, find unambiguous evidence that the freest nations are home to the world's most prosperous peoples. (See www.cato.org/economicfreedom.) A similar study, reaching the same conclusion, was done by Gerald O'Driscoll, Kim Holmes, and Mary Anastasia O'Grady and sponsored by the Heritage Foundation (www.heritage.org/research/features/index/2002/world.html). Indeed, even across the different states of the United States, the evidence shows that greater freedom—lower taxes and less regulation—corresponds with greater prosperity. (See www.ncpa.org/pd/state/pd041499g.html.)

It is true, of course, that freedom creates prosperity in large part by generating tech-

Donald Boudreaux (dboudrea@gmu.edu) is chairman of the economics department of George Mason University and former president of FEE.

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nological advance, which in turn is further promoted by the prosperity that it helps to bring about. But technological advance requires freedom; freedom is its most vital prerequisite.

How does this process work?

First, scientific research and technological progress require human creativity. And creativity, by its nature, cannot be commanded or planned. The slave cannot create. Creation is possible only by those who are free. Freedom gives to each person the incentive and breathing room to create—to discover new knowledge and to use it in ways that promote the welfare of millions.

Second, the wealth made possible by freedom makes available the sustenance and the leisure necessary for speculative inquiry. Had Edison and Einstein been hounded throughout their lives by starvation and disease, or if they had had to work every waking hour just to stay alive, neither man would have created anything. We would never have heard of them. Neither man would have contributed anything to humanity.

The Market Test

Third, a free market provides the only means of determining which creative insights are worthwhile to society and which are not. Each creative insight, when it bursts into being, is original. It hasn't been tested for usefulness, feasibility, or value. Precisely because no one has ever before thought of it—because humans have no experience with it—no one can say at the moment of its creation if a new insight is worthwhile or not.

We know now that Fred Smith's creative insight on how packages can be delivered overnight in an economically feasible manner is viable. But no one knew this when Smith first developed his idea. Even Smith couldn't be sure of its validity. The only way to tell if it was truly a sound idea was to test it, *really* test it—to let private investors voluntarily put their own money at risk to start the business and to let consumers voluntarily choose to use the service or not.

Only if entrepreneurs, suppliers, and consumers are free can we get an accurate reading of the soundness of entrepreneurial insights. Had taxpayers been forced to finance Federal Express, had consumers been forced to use it, or had competitors been outlawed (as they are outlawed from competing with the U.S. Postal Service for the delivery of first-class mail), FedEx's success or failure would not have been a true test of Smith's idea. The same, of course, would be true had the government prevented FedEx from going into business in the first place.

To argue, as some people do, that technology is the ultimate source of wealth is akin to arguing that steel girders are the ultimate source of skyscrapers. It is undeniable that buildings could not scrape the sky without steel girders, but steel girders themselves do not create skyscrapers. Entrepreneurial vision, creativity, risk-taking, and gumption are much more fundamental to the creation of not only skyscrapers themselves, but also of each of their millions of components.

And freedom is utterly necessary for such vision, creativity, and gumption—and the technology they bring about. □

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CAPITAL LETTERS

Government Diet Guidelines and Human Metabolism

To the Editor:

Robert Wright is correct—government research and recommendations about what to eat are misuses of money and manpower ("Are Dietary Guidelines a Public Good?" November 2002). Why does anyone listen to the recommendations at all, considering that they have been modified every other year for almost half a century?

Such activity is also prey to unwarranted influence from special-interest groups. But is it true, as Wright claimed, that the dairy producers sponsor the regulatory agencies? If so, they have failed miserably. Milk, butter, cream, and cheese, previously considered as the most complete nutrients, are now seen as threats to human health. I guess the money from the vegetable-oil producers far outweighed the money from the dairy industry. That is unfortunate because there is much evidence that a diet rich in vegetable oils produces cancer and damages the immune system and the reproductive functions in experimental animals, particularly if the oils have been hardened chemically to trans fat, the dominant fat in most industrially produced food items today. The American people have increased their consumption of such fats steadily for many years, unaware of the warnings that have appeared only in a few scientific journals.

I am also skeptical about Wright's claim about individual differences in metabolism. There are probably small ones, but millenniums are not sufficient time to create large genetic differences in the human race. As agriculture has been around for not more than about 10,000 years, I doubt that we have developed mechanisms to live mainly on carbohydrates. There may be anecdotal evidence for this view, as Wright mentions, but I doubt there is any scientific evidence. Regardless, it is a fact that the considerable decrease in animal-fat consumption and increase in carbohydrate consumption that have occurred in recent years in the United States as a consequence of the dietary recommendations have been followed by a steady increase of the number of fat and diabetic Americans.

—UFFE RAVNSKOV, M.D., Ph.D.
Lund, Sweden
uffe.ravnskov@swipnet.se
www.ravnskov.nu
Author, *The Cholesterol Myths*

Robert Wright replies:

I am thrilled that Dr. Uffe Ravnskov, whose book *The Cholesterol Myths* I highly recommend, has taken the time to critique my article. Given his considerable skill at destroying ill-founded arguments, I am quite pleased to have fared so well.

I must apologize for giving the impression that I believe that dairy producers completely control government health agencies. Robert Cohen of the Dairy Education Board seems to think so, but I proffered his sentiments only as an example of the influence of special-interest groups. As Dr. Ravnskov suggests, considerable competition among opposing special-interest groups clearly exists. What Cohen and I find unbelievable is that the government guidelines endorse any use of milk at all. After all, hominids survived for millions of years before the domestication of large ungulates. And, as Dr. Ravnskov correctly points out, the 10,000 years that have passed since the invention of agriculture are insufficient for humans to have evolved a need for any of the products of the Agricultural Revolution. Indeed, a good number of Americans are lactose intolerant and even those who can stomach the stuff do not need it to thrive.

That brings me to my final point. I seem not to have made clear that by "distant roots" I mean *distant*. Alas, we may never know exactly when and where *Homo sapiens* arose. But whether we stem from the proliferation of a small group of mutants in Africa or evolved slowly throughout the Old

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World from *Homo erectus*, groups of humans have clearly evolved to fit into niche environments. For instance, pygmies, the shortest population in the world, live near the tallest population, though in vastly different environments. Given that the biosphere is extremely variegated, and that hominids have long occupied the widest territorial range of any mammal, I see no reason, a priori, to reject the hypothesis that we may exhibit a large degree of genetic metabolic diversity. And what else explains the existence of individuals who, ceteris paribus, consume large amounts of carbohydrates yet remain fit and trim, while other individuals suffer the full weight of the adage "A moment on the lips, a lifetime on the hips"?

Free-Market Environmentalism and Tough Cases

To the Editor:

I do not inherently disagree with Roy Cordato's article "The Impossibility of Harming the Environment" (May 2002). As a state employee whose task it is to enforce and oversee cleanup of pesticide and fertilizer spills, as well as prevent spills, via enforcement of containment rules, I all too often see the legislation allowing me to do my job misused by the politically and financially powerful. So making polluters more directly accountable to the property owners whom they harm or whose property they harm appeals to me.

However, it appears as though he is stating that pollution that does not affect anyone . . . should be perfectly legal . . ., as the environment cannot be harmed, only people . . . can.

. . . [T]here is no pollution that does not affect anyone. For instance, take a facility that leaks herbicides and/or fertilizer compounds to the ground and does not clean them up. Over many years, groundwater will become contaminated, groundwater that could . . . be used for drinking water. Due to the nature of business, by the time the water is used for drinking, the polluting facility may be long since out of business. In such cases, it seems to me that current types of environmental laws requiring cleanup and allowing enforcement actions including forfeitures for polluters are a more effective means of encouraging safe practices and getting pollution cleaned up.

—MATHEW LAAK
Madison, Wisconsin

Roy Cordato responds:

If I understand Mr. Laak correctly, we agree that, as "humanists" who value human liberty and well-being (as opposed to "environmentalists"), we must take the position that so-called environmental policy should be about human rights and not about protecting the environment per se. His hypothetical case focuses on how this principle might play out in a particular situation.

My problem with his solution is that it effectively punishes people who have not harmed anyone and may never harm anyone. His solution may very well be a more "effective means of encouraging safe practices or getting pollution cleaned up," although I would argue that something isn't pollution until it violates someone's property rights. The moral question is: is it okay to violate a person's rights today because he might violate someone else's rights in the future? While this "precautionary principle" has become part and parcel of environmental policy, I do not think it is just.

This brings up some questions regarding Mr. Laak's hypothetical case. It is difficult to address because he does not note the property-rights status of the ground water. It appears that his case assumes that the ground water has no owner and that he is describing a "tragedy of the commons." His suggested solution follows from this. I would argue that commons need to be privatized and ownership rights need to be worked out.

Assuming the person leaking herbicides into the water is the first user, I would favor allowing him to take ownership of it with all the rights and obligations this would entail. This would encourage use of the resource in a way that would preserve its value for alternative future uses, possibly by those who

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would purchase it from him. To the extent he adds contaminants that degrade the water for other possible uses, he reduces its market value to future potential purchasers.

If the ground water already has another owner or if the effluents end up in water that someone else has rights to, then the herbicides constitute a trespass and the owners should have the right to seek an injunction for unauthorized use of their resource. Ultimately, with all property rights clearly defined, the problem should be resolved in common-law courts. How they ultimately might be resolved cannot be predicted with certainty.

Let me say that Mr. Laak identifies only one of many tough cases for a property rights-based, polluter-pays principle. To a large degree, the free-market environmentalist research program is a call to think through these cases and ponder the possibilities. While the application may not be clear in every case, it is important that we agree on what we are attempting to accomplish: the protection of human rights and liberty. It is also important to understand that the goal of "protecting the environment," besides being morally vacuous, is far more nebulous and faces many more conceptual and practical problems than the goal of protecting human welfare. Because of this, it is much more susceptible to political manipulation.

Not So Pricey

To the Editor:

I am grateful for Gene Callahan's kind words in the November issue of *Ideas on Liberty* (review of *Ethics as a Social Science*). However, I fear that the wrong price quoted, $160, will turn some potential readers away. The actual price is plenty high enough: $100. That is for the hardcover edition. The paperback edition, released earlier this year, sells for $35.

—Leland B. Yeager
by e-mail

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BOOKS

Junk Science Judo: Self-Defense Against Health Scares and Scams

by Steven J. Milloy

Cato Institute • 2001 • 191 pages • $18.95

Reviewed by Theodore Balaker

So much of staying healthy and sane is worrying about what's important and not sweating the small stuff. It makes sense to worry about, say, getting enough exercise since exercising regularly can greatly improve one's quality of life. Most rules for maintaining a healthy life are quite simple.

Since most of us are not physicians or actuaries, we rely on the media to furnish us with the health information we incorporate into our personal risk-assessment calculus. Unfortunately, media outlets often muddy our view of risk assessment with outlandish and overstated threats. At the core of many of these threats one often finds the fingerprints of the junk scientist. He urges us to fret about small risks like Alar, breast implants, and secondhand smoke, and confuses us with shrill warnings about what we breathe, buy, and eat. Sometimes it seems that the junk scientist would have us sweat only the small stuff. Thankfully, Steven J. Milloy reminds us that the most important lessons of risk assessment are often the simplest.

His book, *Junk Science Judo: Self-Defense Against Health Scares and Scams,* delivers what it advertises. The antijunk-science movement revels in exposing quacks, crooks, and misguided do-gooders, but here Milloy goes a step further. He gathers the lessons learned from locking horns with junk scientists and offers a handbook for staying sane in a culture seething with corrupted science.

Milloy reminds us that, while science may appear intimidating, the scientific process remains simple. We should find comfort in the scientific method with its predictable process of observation, hypothesis, testing, revising of hypothesis, and more testing. Science plods, ever so slowly and deliberately, toward truth. Science is not fickle; it does not leap from one truth to the next. Headlines that tout the findings of a shocking new study should be understood in the larger context of science plodding toward truth. One study cannot turn thousands of years of accumulated knowledge on its head. As Milloy notes in a pronouncement typical of the book's colloquial style: "A hypothesis should get the you-know-what tested out of it until it is credible enough to be labeled a 'theory.'" Even then more testing is needed before a theory can graduate to scientific law. Before we buy into the scare of the moment we ought to see how it conforms to the larger body of scientific knowledge. It may not be necessary to uproot the family and move away from those power lines, after all.

Milloy correctly notes that most of us remain properly skeptical of scientific claims made by corporations, since corporations often have self-serving motives in understating or overstating health risks. But we become trusting when confronted with the claims of government officials, activists, and consumer and environmental groups. Some groups seem untainted by self-interest, motivated only to serve the common good. However, the intentions of activists may be especially menacing since noble rhetoric camouflages their self-interest.

Take fundraising for environmental groups. It has become a multibillion-dollar industry, and, whether the science is sound or not, coffers grow with each new scare. Often the junk scientist is merely a partisan in public advocate's clothing.

Milloy is particularly effective when he illustrates (with endless examples) two fundamental rules of Junk Science Judo: statistics aren't science and the dose matters. Statistics provide associations; they do not establish causation between two phenomena. Often journalists try to skirt this issue by using weasel words. "May," "might,"

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"possibly," and my favorite, "link," all imply causation where causation may not exist. Milloy rebuffs a journalist who writes that PCBs have been "linked" with cancer: "Certainly PCBs have been 'linked' with cancer—the same way Richard Jewell was 'linked' with the bombing at the Atlanta Olympics. Both were accused and assumed guilty but subsequently vindicated."

Such prejudice is common in the public sphere. Certain substances are simply presumed guilty. Alar, radiation, dioxin, and lead can only be harmful. While the mantra of the junk scientist is "any dose is poison," Milloy encourages us to remember a fundamental principle of toxicology: "the dose makes the poison." Two aspirin relieve your headache; two hundred may kill you. Here we find the crux of an archetypal junk science issue, the Alar scare. Yes, you might be at greater risk for developing cancer if you drink juice from Alar treated apples—but only if you spend your life drinking 19,000 quarts per day.

One area Milloy could emphasize more is the importance of taking the junk out of science. Junk science makes us less safe by using the noise of outlandish risks to distract us from health and safety measures that actually improve lives. Moreover, crisis is the seedling of big government. So even if we sidestep junk science in our personal lives, we still must face politicians bent on making it the law of the land. □

Theodore Balaker is a network television news associate producer.

Dollars and Nonsense: Correcting the News Media's Top Economic Myths

edited by Stephen Moore and Richard Noyes

Media Research Center • 2001 • 107 pages • $16.95 paperback

Reviewed by Robert Batemarco

Facts never speak for themselves. They need to be interpreted. But suppose the interpreters don't speak the same language that the facts are in. You would then get the situation decried in *Dollars and Nonsense*, namely, news media that regularly construe good economic news as bad and bad economic news as good.

The authors of the ten essays contained in this concise volume, a project of the Media Research Center, each unearth an all-too-common example of economic misinterpretation and try to set the record straight, using both economic logic and facts ignored by the initial perpetrator.

Alas, much of the unenviable task of economists is to fight constant rear-guard actions against myths that have persisted for decades, if not centuries. Case in point is the opening article, in which Nobel Prize-winner Milton Friedman shows that the stimulative power accorded to government spending by much of the financial press (accepted uncritically by many since the 1930s, courtesy of Mr. Keynes) is a mirage.

Several articles dealing with macroeconomic topics include Lawrence Kudlow's disentangling of inflation and economic growth, Arthur Laffer and Stephen Moore's defense of tax cutting, William Gale's primer on saving, William Niskanen's comparison of American and European labor markets, David Hale's exposé of the scattershot record of economic forecasters, and Brian Wesbury's unmasking of the irrelevance of that mischievous statistic, the trade deficit.

Although most news accounts of economic events seem to deal with macroeconomics, the editors of *Dollars and Nonsense* have not shortchanged microeconomics, where numerous economic myths are also to be found. The book includes three strong essays debunking microeconomic myths: Robert Crandall's demonstration of how consumers benefit from deregulation, Nicholas Eberstadt's refutation of Malthusian doomsaying, and Michael Cox's denial that middle-class living standards are deteriorating.

The chapters are short and well written, in a journalistic style befitting their subject, with strategically placed charts or tables to back up their arguments. In addition, each chapter contains a compilation of examples

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of the journalistic misrepresentations of economic issues they take to task.

Perhaps the most valuable part of the book is editor Stephen Moore's introduction. It explains that errors in economic reporting are not random, as they might be were their sole source mere economic ignorance. Rather, they follow a consistent pattern—finding problems for which there is a government "solution"—that results from combining a statist worldview with the pursuit of self-interest guided by the maxim that bad news sells papers. Moore ends his introduction on a positive note, listing "seven simple rules about understanding the new economy." They are short and to the point and would do more to elevate the level of economic understanding than 1,000 new Ph.D.'s.

As far as it goes, this book is a much-needed corrective to the warped interpretations of economic issues disseminated by most major media organs. In two ways, however, I contend that it does not go far enough. The first is that it makes too many concessions to the conventional "wisdom." For instance, after convincing us that the European "social market" generates persistent high unemployment, Niskanen draws no stronger conclusion than that "it is not the best model for the United States"—as if the double-digit unemployment it generates were good for other countries.

The second way in which this book does not go far enough is in some of the media myths it fails to include. One of the most widely accepted myths in need of correction is that misguided Keynesian notion that savings is a drag on the economy, with its corollary that consumption is what stimulates growth. Indeed, the author of chapter 9, William Gale, mentions that belief, but lets it pass without critical comment, as he devotes his entire contribution to the measurement of saving.

Written at a popular level and placing a premium on brevity, *Dollars and Nonsense* does not always make some of the finer distinctions one might expect from a more in-depth treatment. Perhaps that would be asking too much. The Media Research Center's mission is a worthy one. Far more often than not, this book succeeds in that mission. □

Robert Batemarco is a vice president of a marketing research firm in New York City and teaches economics at Pace University.

The Death of the West: How Dying Populations and Immigrant Invasions Imperil Our Country and Civilization

by Patrick J. Buchanan

St. Martin's Press • 2002 • 308 pages • $25.95

Reviewed by Daniel T. Griswold

Give Pat Buchanan his due: The man can write. In his latest book, *The Death of the West*, he unleashes his rhetorical howitzer against his own "axis of evil" threatening Western civilization: the birth dearth, the secular left, and "mass" immigration. But his barrage of well-crafted words cannot hide gaping holes in his argument.

As usual, Buchanan delivers his message with clarity and passion: Cutting tax rates and spurring economic growth are good causes, he grants, "But what doth it profit a man if he gain the whole world and suffer the loss of his country? . . . With the collapsing birthrate, open borders, and the triumph of an anti-Western multiculturalism, that is what is at issue today—the survival of America as a nation, separate and unique, and of Western civilization itself—and too many conservatives have gone AWOL in the last great fight of our lives."

Along two of those battlefronts, demographic and cultural, Buchanan's arguments resonate with more than a grain of truth. Most economically advanced Western nations are indeed on the verge of a demographic implosion with birthrates now below the replacement level of 2.1 per woman of child-bearing age. Russia and Japan will soon begin to shrink. Meanwhile, populations in most of the Third World, including the Middle East, continue to grow albeit more slowly than in the past. But this story is nothing new.

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On the cultural front, Buchanan again is on to something. For decades, an educated elite, mostly in universities and the media, has been waging an intellectual war against traditional American values of family, individual responsibility, private property, and free markets. According to its worldview, Western civilization is basically a force for evil in the world and the breakdown of the family something to be celebrated, not a problem to be addressed. But here again, Buchanan only wraps in his own rhetoric a message that we've heard before from the likes of Allan Bloom.

On immigration, however, Buchanan's arguments take a contradictory and sometimes even bizarre turn. He argues that Mexicans in particular are immigrating to America in unprecedented numbers, that they have no desire to assimilate, and that they will profoundly change our culture and politics. Buchanan minces no words: "Uncle Sam is taking a hellish risk in importing a huge diaspora of tens of millions from a nation [Mexico] vastly different from our own. And if we are making a fatal blunder, it is not a decision we can ever revisit. Our children will live with the consequences, balkanization, the end of America as we know her."

Buchanan's fears of mass immigration are greatly exaggerated. First, the numbers: The rate of immigration today is well within historical American experience. The annual inflow of immigration during the past decade, as a percentage of the U.S. population, was less than half the rate a century ago during the Great Migration of 1880–1914. The rate of Mexican immigration today, legal and illegal, is proportionately smaller than Irish immigration in the mid-nineteenth century, or Italian or Russian immigration in the early twentieth century. We managed as a nation to successfully absorb those millions despite worries at the time that they were too different in religion, language, and culture to become "real Americans."

American culture and the English language have penetrated every corner of the globe. Why would immigrants right here in the United States be immune to those same powerful influences? Immigrants come here because they admire the United States and the opportunity it offers. Ironically, the long list of characters that Buchanan names as enemies of traditional American culture, from the intellectuals of the Marxist "Frankfort School" to John Lennon, are all dead white Europeans.

As for our shrinking population, immigration is obviously not the problem but in fact the answer. By maintaining America's population growth, immigrants expand our productive capacity as a nation and strengthen our cultural and economic ties abroad—enhancing America's influence in the world. Immigration is a key reason why American influence has grown in recent decades, while that of Europe and Japan has receded.

Finally, the jury is still out on the political implications of immigration. We do not know that future immigrants will necessarily be lockstep supporters of statist politicians. Maybe a party with a strong commitment to economic freedom and opportunity would be highly appealing to people who are yearning for success.

Buchanan is a master of the emotive phrase, appealing to our values and, more cleverly, to our prejudices. And he does his homework, stocking his argument with interesting, if highly selective, facts and quotations. But his talents as a polemicist cannot mask what in the end is an incoherent argument. □

Daniel Griswold is associate director of the Center for Trade Policy Studies at the Cato Institute in Washington, D.C.

The Reckless Mind: Intellectuals in Politics

by Mark Lilla

TNRB Press • 2001 • 230 pages • $24.95

Reviewed by Tibor R. Machan

Mark Lilla's book *The Reckless Mind* chronicles some of the most egregious corruptions of philosophy. The life

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and thought of Martin Heidegger (along with Hannah Arendt and Karl Jaspers), Carl Schmitt, Walter Benjamin, Alexander Kojeve, Michel Foucault, and Jacques Derrida are Lilla's topics. Those luminaries of European philosophy managed to aid and abet some of the worst tyrants in human history, producing some of the most pompous, highfalutin, and convoluted—as well as brilliant—ideas in history.

Lilla, a professor at the University of Chicago, has given us a book that is informative and exciting, despite his subjects' complicity in history's worst crimes against humanity. Lilla notes, charitably, that there is some worthy insight and speculation in the work of his subjects. Yet what he says of Foucault is true of all: "One might choose to follow Foucault on his inner journey, or set out on one's own, but it is dangerous and absurd to think that such spiritual exercises could reveal anything about the shared political world we live in. Understanding that world would require an altogether different sort of self-discipline."

The philosophers Lilla studies veer off into grotesque intellectual indulgence and rationalizations—claiming it is all for a higher good, of course. Hence the book's title.

Walter Benjamin, for example, tells us that to strive for the passing away of the natural world is "the task of world politics, whose method must be called nihilism." How convenient for a tyrant to hear that politics must be employed to annihilate "the natural world."

Lilla shows that Jacques Derrida's writings cannot but contribute to irrationalism in politics. Derrida states, for example, "What I try to do through the neutralization of communications, theses, and stability of content, through a microstructure of signification, is to provoke, not only in the reader but also in oneself, a new tremor or a new shock of the body that opens a new space of experience." As Lilla notes, this explains "the reaction of those readers who suspect that the neutralization of communication means the neutralization of all standards of judgment—logical, scientific, aesthetic, moral, political."

Philosophers have often been tempted to contribute to politics in ways that are hazardous to both the public and their own craft. When a discipline that ought to aim for truth free of bias and hidden agendas instead serves community regimentation, it will fall prey to corruption. That is the problem with the philosophers Lilla discusses here.

In some ways, of course, all disciplines require freedom from bias. But the temptation to stray is great for those who are committed to seeking (and have found what they take to be) the right answers, especially about political matters. Partisanship is unavoidable, even when one seeks to be nonpartisan. But there is a way, albeit difficult, to be partisan and also philosophical—relentless self-scrutiny by squarely facing facts. Alas, the thinkers Lilla studies have uniformly failed to maintain the needed balance between being responsible citizens and responsible philosophers.

Lilla's concluding chapter deals with the issue of just why philosophers are tempted to provide respectability to some of the worst regimes in history—Hitler, Stalin, Mao, et al. He provides some fine analysis, drawing on the work of Socrates and Plato, who grappled with these matters centuries ago.

Another point may be of some help in understanding what Lilla identifies as the "philotyrannical temptation." It is the misguided conviction that just by being philosophers, some have earned the authority to have their ideas *imposed* on everyone else. Karl Popper, in *The Open Society and Its Enemies*, makes allusions to this mistaken way of thinking. Socrates, Plato, even Aristotle, whatever the merits of their work, embraced versions of it when they insisted that the philosophic life is superior to all others. So those not living that life are inferior. It is a short distance from that to embracing authoritarianism.

We still see this attitude, as when professors deem themselves to be the conscience of the culture, when commerce is denied an honorable standing, and when the practical sciences are thought of as inferior to the pure

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ones, thereby conferring a lower status to those who study them.

Lilla's is an instructive book. It is encouraging also that most of its content came from the *New York Review of Books* (though, ironically, the editors of that magazine have their own unrelenting elitism). Though a bit hard going in spots, it's very rewarding. □

Contributing editor Tibor Machan teaches business ethics and the history of ideas at Chapman University. His latest book, co-authored with James Chesher, is A Primer on Business Ethics *(Rowman & Littlefield, 2002).*

The Strange Death of American Liberalism

by H.W. Brands

Yale University Press • 2001 • 191 pages • $22.50

Reviewed by George C. Leef

H.W. Brands is a prolific historian with some readable books to his credit, such as his biography of Ben Franklin, *The First American.* In *The Strange Death of American Liberalism*, however, he ventures into the field of intellectual history and has produced a book that reads more like an overstuffed college term paper with a hastily conceived thesis than a book worthy of a major university press.

By "liberalism," Brands (who teaches at Texas A&M) means the belief that government should not just protect life, liberty, and property, but should undertake programs designed to "make life better." Early on, it becomes clear that Brands likes the deformed, modern conception of liberalism and disdains those who reject it. However, the main point of the book is not to demonstrate the correctness of liberal belief, but to explain why he thinks that it's dead.

"During the 1960s," Brands writes, "liberalism permeated American political life; it was in the very air, supplying the optimism and energy that enabled Lyndon Johnson to declare war on poverty and inequality and believe that could defeat those historic foes of human happiness. But by the mid-1970s, the liberal dream had died, and by the 1980s, 'liberal' had become an almost-actionable epithet." Brands admits that there are still a lot of liberals around, but sniffs that *liberalism* is politically kaput. No more will the mass of the people and politicians embrace uplifting programs to attack the "foes of human happiness."

Before we get into Brands' autopsy, is "liberalism" really dead? Much as I wish it were, it is merely in a period of remission, with occasional outbreaks.

Brands puts the year 1975 on liberalism's tombstone (why is a matter we'll get to shortly), but signs of life have often been detected since then. He dismisses the Carter presidency as a "period of confusion" in American politics, but Carter bequeathed to us two monuments to liberalism: the federal departments of Education and Energy. Both bear the liberal seal of wanting to use governmental power to manage crucial aspects of life "for the common good." Since their creation in 1977, they (and all the other bureaucracies) have been busily regulating, which bring smiles to so-called liberals. Liberalism still exerts strong influence on public policy, but more often does so now through covert regulatory moves than visible legislative ones.

The Reagan presidency was rather stingy toward liberalism, but the first President Bush happily gave us the monstrosity known as the Americans With Disabilities Act. It's hard to imagine anything more attuned to "liberalism" than that. Clinton tried and failed to saddle us with Hillary's authoritarian health-care plan, but did push through the bossy Family Leave Act. Under President Bush II, liberalism triumphed again with "campaign finance reform."

No, liberalism isn't dead. It springs to life whenever politicians see a "crisis" in which sensible inactivity is rejected because it gives future opponents the dreaded "He doesn't care about . . ." attack ad.

Back to the author's thesis. Brands would have us believe that liberalism died with the

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end of the Cold War (or in 1975; he's confusing in this regard). In his view, liberalism was possible because the Cold War made Americans feel that they needed a big federal government for protection internationally, and this led them to trust the government to do the right things domestically, too. But failure in Vietnam (ending in *1975*), brought about a sea change in thinking, with Americans coming to doubt and distrust government, looking askance at politicians who proposed new liberal legislation. The people have been in a sour, anti-government mood ever since, especially manifesting itself in the 1994 elections.

That explanation just won't do. It places far too much importance on Vietnam, which most people have forgotten, and, astoundingly, places no importance whatsoever on the rise of libertarian thinking and its spreading influence. Brands talks about lots of politicians, but *never* brings up any of the pro-market intellectuals who have given liberalism such a pummeling in the battle of ideas. He has nothing to say about Nobel laureates F. A. Hayek, Milton Friedman, and James Buchanan. Nothing about the growth of pro-freedom think tanks and publications, or the importance of talk radio. The free-market movement has made many people skeptical about liberalism by showing that there are sound reasons to doubt that governmental coercion can "make life better," but Brands never mentions it.

Liberalism held sway for decades because the opposition to it was disorganized. Few people ever heard cogent arguments against Social Security or Medicare. Now, intelligent analysis of statist measures is available so widely and quickly that some liberals want to trash the First Amendment to "equalize access to speech."

The weakness of liberalism in the marketplace of ideas is a much better explanation for its decline than is the author's strange account. □

George Leef is book review editor of Ideas on Liberty.

American Foundations

by Mark Dowie

MIT Press • 2001 • 298 pages • $29.95

Reviewed by Martin Morse Wooster

Nearly all large foundations follow this pattern in their history. They are founded by heroic entrepreneurs who championed free enterprise and individual liberty. Within one generation after their founder's deaths, these foundations are then captured by professional philanthropists who are nearly all "liberal." The foundation then distributes grants to "liberal" organizations, which use the funds to attack capitalism.

The perennial problem of philanthropy is how to ensure that a donor's intentions are followed. In *American Foundations,* Mark Dowie recognizes that today's grant makers routinely ignore donor intent. His response is to call for implementing statist policies that, if enacted, would ensure that no one would want to create a foundation in the first place.

Although *American Foundations* is billed as "an investigative history," it's really an analysis of contemporary foundations with some historical examples. As a historian, Dowie is quite inept and routinely makes mistakes. For example, he writes that the Ford Foundation, "during the presidencies of George Kennan, Robert Hutchins, and Paul Hoffman in the 1970s and 1980s," had many battles over what the foundation was to do with its wealth. George Kennan and Robert Hutchins were never Ford Foundation presidents, and Paul Hoffman's tenure as Ford Foundation CEO was in the early 1950s, not the 1970s. In another passage, Dowie says that the Ford Foundation's Fund for the Republic in the 1950s "every year . . . made five hundred smaller grants totaling $50 million in short-term pilot projects aimed at reforming K through 12 education nationwide." However, the Fund for the Republic only received a one-time grant of $15 million from Ford, and gave very little to secondary education.

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Dowie makes more serious errors when he analyzes how today's foundations operate. He is a doctrinaire leftist (his book was endorsed by Ralph Nader) who wants to show that such large mainstream foundations as the Ford, MacArthur, Pew, Carnegie, and Rockefeller foundations are not "liberal." He contends that these foundations have many members of their boards who are high-ranking officers of corporations and therefore not leftists. He also argues that, because these members of the philanthropic establishment are somewhat stodgy in their grant-making, they must in some way be politically conservative.

But, as the Capital Research Center has demonstrated in its annual volume *Patterns of Corporate Philanthropy*, most big corporations routinely give money to anti-capitalist groups. Historically, corporations have not been as staunch supporters of liberty as they should be. And while it's true that many big foundations routinely support a short-list of favored groups without seeking out new ideas, it's a ridiculous leap to say that groups that don't change their funding (are "conservative" in their grant-making) are somehow right-wing.

The changes Dowie proposes will do little to solve the problems of philanthropy. He believes that foundations are too large, and proposes breaking them up into units that have endowments of $1 billion. Under his proposal, the Gates Foundation would have to split into 21 separate entities. Dowie also claims that by being tax-exempt, foundations are depriving "the public" of tax revenue. He thus insists that foundation boards have 45 percent of their members selected from "the public," which Dowie defines as government bureaucrats and leftist nonprofit officials.

But the problems of foundations are not due to their size, but that their officers ignore donor intent. If the $3 billion Carnegie Corporation were split into three parts, the new organizations would continue to ignore the ideals of Andrew Carnegie, a vigorous and forceful free-market advocate. As for Dowie's second proposal, why would any entrepreneur create a foundation if he knew that nearly half the board would prefer that the foundation become a quasi-governmental entity?

Dowie is, however, right about two things. He notes that since 95 percent of all grant applications are rejected, grant writers must use a special language that is not quite English if they are to be successful. (For example, these grant seekers might say they favor "germinal concepts as ongoing seminal opportunities," which means they are looking for new ideas.) Grant applications have become an art form.

Dowie is also right to support donors' imposing term limits on their foundations. He approves of Irene Diamond, widow of a New York City real-estate developer, who created a foundation with a ten-year time limit, which enabled her to give large grants to scientists seeking a cure for AIDS. Alas, the only way to ensure that donor intent is preserved is for the creators of foundations to insist that their foundations cease to exist within 25 years after the founder's death.

Mostly, however, *American Foundations* is a doctrinaire, error-ridden, and disappointing book that does little to assist readers who want to learn about the problems of philanthropy. □

Martin Morse Wooster is the author of several books about foundations, including The Great Philanthropists and the Problem of Donor Intent.

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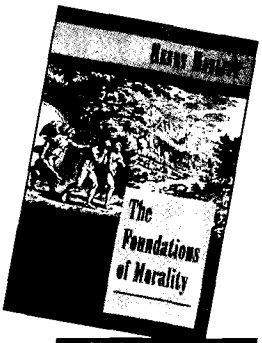

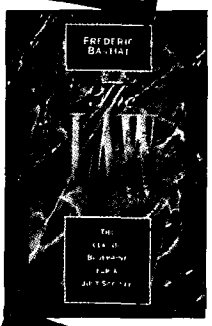

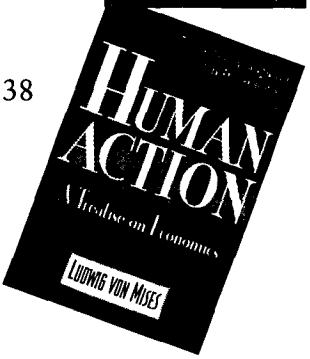

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IDEAS ON LIBERTY
JANUARY 2003

Nazi Tactics

Prior to the 1930s, Germany was Europe's most hospitable country for Jews. While Jews were only 1 percent of the population, they were one-fourth of Germany's law and medical students. In some German cities, Jews were the majority of doctors. While Jews were only 5 percent of the Berlin population in 1905, they paid 31 percent of all income taxes collected. For Germany as a whole, Jewish income was more than three times the national average. In his book, *Migration and Cultures,* Thomas Sowell adds that Jews were so highly integrated into German economic and social life that in nearly half of all Jewish marriages during the 1920s one of the spouses was gentile. During World War I, Jewish-American publications were investigated and prosecuted by the U.S. government for writing favorably about Germany, a nation at war with the United States.

Much of German history has been one of racial toleration. This is partially seen by their anti-slavery positions in Brazil and the United States. In the United States, Germans had a large hand in assisting runaway slaves by way of the "underground railroad." Germans also had an established reputation of getting along well with American Indians.

So why the story about pre-Nazi Germany? I think examining it raises an interesting question that few bother to answer; namely, if Germany was so hospitable to Jews, relative to other countries, how in the world did the Holocaust happen? There are several alternative explanations, such as Hitler's massive consolidation of government power. Then there's the fact that German culture places high values on regimentation and obedience to authority. An important part of the answer of how Germans came to accept Jewish persecution was a massive and successful Nazi Jewish-vilification program. Teaching Germans to think of Jews as inferiors and as responsible for the post-World War I economic devastation made it possible for Germans to accept the mistreatment of Jews.

You say, "Okay, you're right, but what's the relevance to us?" There are about 40 million Americans who smoke cigarettes. Prior to the 1980s, all efforts to curb tobacco use relied on arguments pertaining to the health risks borne by smokers. The only way to achieve today's level of sustained attack on smokers and tobacco companies was to create an argument that tobacco smoke harmed not only smokers but others as well. Thanks to a fraudulent Environmental Protection Agency study on secondhand smoke, "Respiratory Health Effects of Passive Smoking," we have today's tobacco regulations. This is despite devastating evidence that EPA's study made subjective judgments, failed to account for important factors that could bias the results, and relaxed a crucial scientific standard to achieve the result the researchers were looking for.

Walter Williams is the John M. Olin Distinguished Professor of Economics at George Mason University in Fairfax, Virginia.

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The "relaxed" scientific standard was the EPA's lowering of the confidence interval applied to its analysis from the more standard 95 percent to 90 percent—in effect, doubling the chance of error. A federal court in *Flue-Cured Tobacco Cooperative Stabilization Corporation v. EPA* added that the EPA "disregarded information and made findings based on selective information . . .; deviated from its risk assessment guidelines; failed to disclose important [opposition] findings and reasoning; and left significant questions without answers."

As a result of both official and non-official fraudulent claims about the health effects, as well as the health-care costs, of smoking, there has been widely successful vilification of cigarette smokers and tobacco manufacturers. Lawmakers have little hesitance in imposing confiscatory tobacco taxes, in some jurisdictions of one to three dollars per pack. Zealous lawmakers and other public officials have attempted to ban smoking on streets and in parks. In at least a couple of jurisdictions there have been attempts to outlaw smoking in one's own home or apartment under the flimflam reasoning that neighbors are injured by secondhand smoke. Americans don't mind at all seeing their fellow Americans huddled in the winter outside their workplaces in order to have a cigarette. In the state of Washington, a condemned prisoner was denied a last request for a cigarette. Last summer, California banned smoking in some of its prisons.

None of this could have happened during a much more civilized era in our country. Nazi-like vilification tactics had to be employed to convince decent Americans that smokers and tobacco companies deserved any harsh treatment.

All Should Be Concerned

I'm by no means suggesting that smokers are headed off to concentration camps and gas chambers, although they might have been in Germany because Hitler was a rabid anti-cigarette zealot. Instead, I'm suggesting that the cigarette-smoker vilification campaign is something about which we all should be concerned, whether we smoke cigarettes or not. These people who want to control our lives are almost finished with smokers; but never in history has a tyrant arisen one day and then decided to tyrannize no more. The nation's tyrants have now turned their attention to the vilification of fast-food chains such as McDonald's, Burger King, Wendy's, and KFC, charging them with having created an addiction to fatty foods. Thus, the tyrants claim, fast-food chains have contributed to obesity-related problems and growing health-care costs. Like the anti-tobacco zealots, they call for regulation, compensation for injury, and taxes on foods they deem to be non-nutritious. In addition to fast-food chains, these tyrants have targeted soft drink and candy manufacturers. Chinese and Mexican restaurants are also in their sights because they have meal servings deemed to be too large.

In their campaign against fast-food chains, restaurants, and soda and candy manufacturers, the nation's food Nazis always refer to the anti-tobacco campaign as the model for their agenda. □

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In a free society, all individuals ought to remain untrammeled in their creative activities; the state should . . . prevent or punish the aggressive use of force and fraud. The fundamental moral principle underlying the premises of a free society—that each human actor ought to remain at liberty to seek his own creative destiny as he sees fit—cannot exist in harmony with most of the common lore and foolish rules now applied to "insider trading."

—RIDGWAY K. FOLEY, JR., "'Insider Trading': The Moral Issue"

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